

INSIGHT INTO INDUSTRY

News of Industrial Advances in British Columbia

Winter 1992

Economic Trends

Internationally, we've grown used to references to Japan and Germany as models of economic growth. But we've begun to see the bloom rub off these showcase economies. In Japan, high interest rates are finally taking their toll on capital investment (which grew at a rate of 15% per year between 1988-91), the major impetus to economic growth. Real GDP has slowed from 6% in 1990 to about 2.5 to 3% for the coming year. Japanese companies, particularly those who invested abroad, are facing a severe profit squeeze; for some as much as a 20% drop--painful for companies like Sony who haven't seen losses since 1958.

In Germany, under pressure of reunification, real GDP growth is expected to drop to 1.8% in 1992 down from 3.2% in 1991.

What's the implication? As these dominant economies slow down, perhaps because of the strain of uninterrupted growth, they begin to look inward and become less of a catalyst for the world economy.

In the US, a few signs point to re-

newed economic activity, but for the most part, consumers are still clinging tight to their wallets as are companies to their capital. Housing construction is the most positive indicator, with starts up by almost 10% in February over January. And after almost 3 months of decline (peculiar if the economy is in recovery), manufacturing output is finally heading up, but will it stay up? Republicans certainly hope so!

In Canada, 1991 was not a year to be remembered for its stellar economic performance. Real GDP declined by 1.5% and employment fell by 1.8% or 232,000 jobs. The February Budget forecasted economic growth of 2.7% for 1992; and with the stalling of the recovery in the second half of 1991, and the weakening of the world economy over the last few months, we're not likely to see the start of this growth until late spring.

Consumer spending and residential investment are expected to be the main stimulants to growth. The main risk here is that debt-laden consumers may use their spare cash

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to pay down loans instead of making new purchases. On the housing side, low interest rates, the new 5% down payment plan and the ability to tap into RRSP's, appear to be persuading some potential home-buyers to take the leap. According to CMHC, total housing activity in Canada increased by about 3,000 units in February as a result of the 5% down payment plan.

Another risk to the forecast lies in the actions of provincial governments.



Industry, Science and
Technology Canada

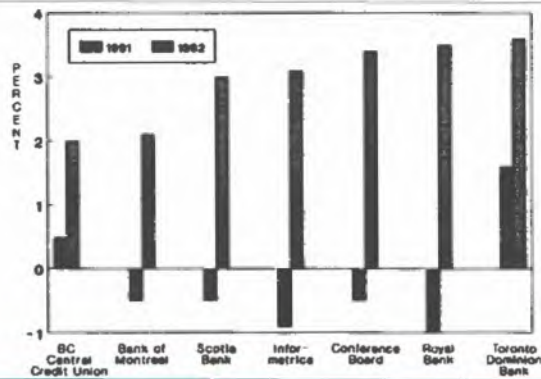
Industrie, Sciences et
Technologie Canada



Canada

A Summary of BC Economic Forecasts (Growth in Real GDP)

1991 GDP growth for BC
was zero percent (est.)



The slowness of the recovery has worsened the fiscal position of provincial governments which, in turn, may mean restrictive measures in the next round of provincial budgets. At a minimum, the capacity across all governments for fiscal stimulus has been swamped in the wake of the recession.

In BC, there is a forecast of 3% growth for the balance of 1992. But here too, the forecast is clouded with uncertainty due to questions over: the future of our resource industries; whether longer term foreign investment decisions are actually being reconsidered; whether monetary volatility (e.g., interest rates) is scaring off big ticket purchasing--are consumers downscaling?--whether the US will continue to "posture" (and punish us) with its protectionist pre-election stance through to November '92 and beyond; and perhaps most importantly, uncertainty about the outcome of the constitutional talks--we'll know part of the answer to that in October.

Generally though, these are not easy questions and we don't have answers. We can report the consensus--that the BC economy should continue its modest recovery, encouraged by the recent increase in US housing starts and continued strong migration from other provinces and abroad (a net increase of 18,500 people is forecast for this year). Indeed, domestic demand will be the key factor driving our economic growth during this period.

TECHNOLOGY

Organs That Think: Taking Technology to the People

The first thing you notice about *Don Thompson*, President of North Vancouver's *Adagio Electronics*, is that (even at 8:30 a.m.) he radiates positive energy, through the whole interview he never stopped moving!

An accomplished organist, Don was a travelling concert artist for the famed Wurlitzer Co. as a teen during the late 70's. By the 80's, however, Don began to notice some changes. "Keyboards started coming out that had hundreds of sounds and rhythms that everyone thought sounded great and instead of \$5,000 to \$20,000 they were under \$2000."

Meanwhile, the "big North American organ makers didn't keep pace with technology. They made so much money in the late 70's and early 80's they thought they could do no wrong" and continued to crank out organs like they'd always done. By the mid-80's all these companies were either bankrupt or taken over by off-shore keyboard makers.

This left Don, and other organists, wanting. They could see continual advancements for keyboards but they wanted to use both hands and feet the way the organ allowed. Other drawbacks to the keyboards were that they were complicated to

program, ugly to look at and "the accessories are very expensive, they can often double or triple the price of the instrument."

As a teacher, Don noticed the frustration that people had *learning* how to play. Traditionally students were forced to suffer through musical bootcamp -- learning finger placement, scales and other captivating exercises -- before they were allowed to play songs. And even then the first few months of playing "songs" were usually as unsatisfying for the student as it was excruciating for those around them.

By 1989 Don explains "I got tired of waiting for some company to produce an instrument which would satisfy these concerns, so I decided to do it myself!" The result, which will debut this summer, is the *Digital Composer*. The "brain" of the Composer is powered by the equivalent of high speed IBM, MacIntosh and Commodore computers harnessed by Adagio's own artificial intelligence software. The combination brings to the organ all the bells and whistles available for keyboards without having to be an electronics engineer to make them work.

For students, they have only to play and the Composer interacts by instantly analyzing whatever is being



“Keyboards started coming out that had hundreds of sounds and rhythms that everyone thought sounded great and instead of \$5,000 to \$20,000 they were \$2000.”

Wise Words from Young'uns

You might think that coming out of high school, a bottled water company owner wouldn't know much about leading edge management practices. Or how about a young retail bicycle store owner? But that certainly isn't the message we heard from keynote speakers at our recent conferences on entrepreneurship.

In fact, effective or leading edge management practices are not just a competitive edge unique to large and/or established businesses. Successful young entrepreneurs seem to know a fair bit about them too. And it's important that these young entrepreneurs reach others with entrepreneurial potential with their message; to tell them something about the realities of a competitive world (something the education system will ignore at its peril); and to remind them that in our economic system, profit is not a four letter word--loss is.

This is the principal reason why we offered to co-sponsor, with the BC government, *a series of conferences on entrepreneurship aimed at high school students*. Each conference day starts with a successful BC young entrepreneur telling his/her own story. And some of the messages coming from these "seasoned" business owners are

played, adjusting its response according to the competence level of the player, and becoming a partner or guide in whatever way the player wishes. Don has found that this method reduces required practising time and increases the student's enthusiasm for learning.

For other young entrepreneurs that are interested in technology based enterprises, Don has some pointers. "When you are trying to sell your idea or concept *don't forget that not everyone speaks the same "language" as you*. Explain everything in simple everyday terms ... but don't be infantile."

Anticipate rapid change and obsolescence in technology based products. Adagio has addressed this consideration through the very design of the Digital Composer. "I've left it (the Composer) completely open ended so that any new sounds or features can be loaded in on a 39¢ floppy disk."

Don't forget government assistance. Don was able to receive government assistance for development of his technology through the *National Research Council's Industrial Research Assistance Program (NRC)*. "The NRC people were really great, they helped us take our technology from theory into reality."

Make the technology "transparent". People, as all those VCRs blinking

12:00 attest, don't like wasting time pushing buttons and figuring out complex operating systems. "Technology is best applied when people gain all its benefits without going through a complicated learning process, like new cars."

For Adagio it was also important to *remain focused on its target niche* -- the high end organ buyer. While Don believes that other larger markets, such as those for young musicians, may be viable, premature diversification into these areas runs the risk of antagonizing large established suppliers who may just decide to engage you in patent litigation for six months just to "see" if there are any infringements. The result being the financial ruin of your enterprise before it's even off the ground.

Final bit of advice? "You have to focus in on the market segment that you know about -- and know you can sell to -- because as soon as you start diversifying too much you get lost in a swamp of too many directions." Focusing on a specific market niche market has allowed many small Canadian companies to compete successfully in the international market.



Glenn Bailey

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Canadian Springs Water

They hire like-minded, entrepreneurial people and give their employees room for opportunity by promoting from within and providing training needed to advance



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Cam Falconer

the same ones that sustain highly competitive people and enterprise--the importance of staying in school, total customer commitment and product and process excellence. Just a word on some of the companies the kids get to hear about.

Glenn Bailey and his partner Cam Falconer started *Canadian Springs Water* five years ago. Today, the company, which delivers bottled water to offices and homes, has multi-million-dollar sales, 12,000 customers and 70 employees. Now, you don't get to that size without some real initiative and good management sense.

Bailey and Cameron feel that one of the main reasons for the success of Canadian Springs is its ability to build a cohesive and motivated team. A motivated, productive staff is crucial to the success of this company, where labour is one of the largest costs of doing business. *They hire like-minded, entrepreneurial people and give their employees room for opportunity by promoting from within and providing training needed to advance.* For example, one woman who started as a receptionist now supervises a dozen people.

Productivity problems? This company doesn't seem to have them. Maybe it has something to do with the continuous high volume of rock music that's pumped all over the plant. Or maybe it has to do with the

company's commitment to increasing productivity through the use of advanced technology. Whichever, productivity has increased dramatically since they turned up the music and installed one of the best-selling commercial software packages available specifically for bottled water companies.



On another track, *Andy Ius, owner of the Great Canadian Bicycle Co.* is practising his own version of total quality management. *"Total customer commitment"*, is the sign posted on the cash register counter and Ius believes it's the key element to his success. For example, a customer whose new mountain bike had been battered in a recent accident was totally convinced that a certain part on his bike had malfunctioned. Although Ius knew it hadn't and could prove it, he considered the customer's trauma and chose to replace the damaged parts and fix up the bike free of charge. Ius says, "It's not all big heartedness. It's business practice--problem management. For customers, perception equals truth, and facts have nothing to do with it."

For Ius, doing business is not about money, it's about people. The good turns he does for his customers come back to him in the form of loyal patronage and unexpected good

reactions from others. For example, when Ius told his supplier, Norco, about the mountain bike incident and his reaction, Norco offered the necessary parts to Ius at half price.

The results of this customer-focused approach? In 1991, when many bicycle retail stores were going under, The Great Canadian Bicycle Co. sales were only slightly down from their 1990 peak, and profits reached their highest level ever. How? Through careful monitoring of traffic flow, more efficient use of staff, better tracking of stock and cancellation of items that don't sell well.

When it comes to hiring and training staff, communication and keeping it fun are the company's guiding principles. *Training on how best to deal with customers is turned into an amateur drama session--Ius plays a certain type of customer and staff members practice their responses on him.* He tells his staff, "you're responsible for keeping things fun, exciting and interesting. You're responsible for your own dream."

Not surprisingly, students seem to relate well to these young entrepreneurs and to grasp the messages being told through the stories--some even asked questions without being paid or threatened! *But local business people also have a chance to speak about how to turn ideas into businesses--in workshops on things like marketing, how to prepare a business plan and*



Alert!! Tigresses Prowl Entrepreneurially in Asia

identifying business opportunities. This is a superb opportunity for local business leaders to talk to students about what "business" sees as important in terms of education, skills and job opportunities (something we'd like to see more of).

And we're very encouraged by what we see outside the Lower Mainland too-- that there's a pool of young people with entrepreneurial instincts and with minds open to the 'best practices' of managing business start-ups. So much so, that we'd like to see more industry/business leaders taking an interest in talking with and taking stock of this potential group of future employees and customers.

We also learned an oft-repeated lesson, *don't go unprepared or poorly focused into a group of young lions* - and expect to hold their interest. Some workshop leaders (business people themselves) could well benefit from the tips they want to pass on to students. Many presenters did a great job, but some didn't do what they do everyday to survive in business--clearly assess the needs of their client group (in this case students) and pitch their product/message at that level. Instead, they delivered an adult, lecture-style approach totally inappropriate to a group of 16-17-year-olds. *Customer focus!!*

But they'll get a chance to do it right next year. We again hope to co-sponsor 20 of these Young Entrepreneurs conferences around the province next year.

If you can tell a tigress by her stripes, you can tell a true entrepreneur by, among other things, her willingness to challenge conventional thinking, take risks, and see the market from a new perspective. By that standard, Canadian businesswomen who approach the Asia market - and increasing numbers are doing so - are covering themselves with big, black-and-orange stripes.

First, by going to Asia at all, *these women challenge the conventional wisdom* that so-called "male-dominated" Asian societies won't accept foreign businesswomen - and rightly so, for this is proving to be a myth. Their experience in Asia, and the tips they have to offer, is the focus of the upcoming report "Canadian Women Doing Business in Asia" by ISTC British Columbia and Yukon, and the Asia Pacific Foundation of Canada.

To make you curious about these prowling entrepreneurs, here are some notes about them.

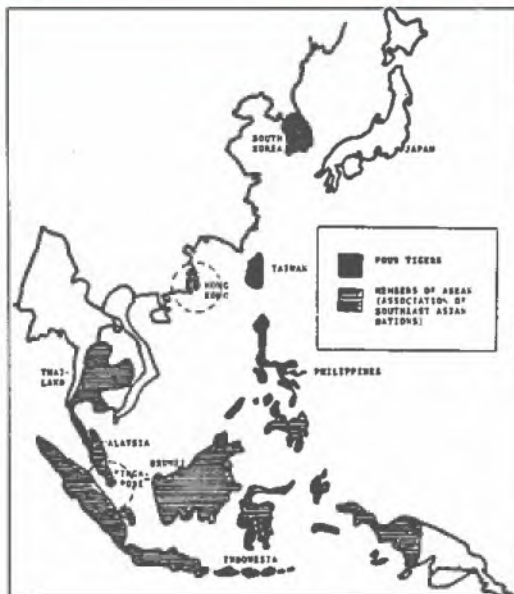
Vancouver's Susan Madden, head of Bali and Orient Holidays, has shown the kind of *risk-taking behaviour* which can open up new vistas for the entrepreneur. When she arrived in Canada from the United States, she set about finding a niche in the local travel market - a market which she describes as less competitive and more "closed" than that in the United States. During a 1987 holiday in Indonesia, she met a local company, Vayatour, and later handed them some business. "They don't forget things like that." When Vayatour later debated closing its fizzling Canadian operation, Ms. Madden seized the opportunity and convinced them to let her take it over.

An instinctive strategist, Ms. Madden had to "jump in and work" for the first six months, then developed a plan to become a "top producer" for Indonesia - visibly so to both Indonesians and Canadians. It worked. Ms. Madden employs five people and does well over a million dollars in business, 70 percent with travel agencies and 30 percent with consumers. Now, foreseeing that North American tour companies may begin to cut out wholesalers like herself and go directly to Indonesian companies, she is *aiming at a fresh approach* to the market - achieving representation in North America for some of the smaller Indonesian hotels, transport companies, and "offbeat" airlines perhaps through a consortium. "I've seen it work for Africa," she says.

“After the second day in Taiwan, he fired the interpreter and said “we’ll speak with our feelings.””

The ability to *see a broader market perspective* is another “stripe” of the entrepreneur. Dorothea Oakley is a B.C.-born entrepreneur now living in Taipei, Taiwan. Her company, Oakley Pacific Ltd., has three employees and does \$4 million in business annually, manufacturing juvenile products. Recently, wages in Taiwan have been steadily rising; while American buyers moved out of Taiwan into lower-wage countries, she was seeing “for every six Americans leaving, four Germans coming in.” She began to think about *harnessing Asian productivity to quality European designs*. Although her head office was uninterested, she gradually developed a small wedge of business with Spain’s largest baby stroller manufacturer. “We got along well,” says Ms. Oakley, who believes in acting on instincts. “After the second day in Taiwan, he fired the interpreter and said “we’ll speak with our feelings.”

Using her customers’ money for financing, she brought European designs to her Taiwanese contacts, who were keen to learn and break into new markets. The result? Growing sales into Europe. Today, Ms. Oakley does no business with North America - she is too busy manufacturing for European customers. When she broke from her brother’s firm, she agreed not to touch North America until 1993.



From the looks of things, we’d better watch out for her then!

Valerie Shore Cron spotted opportunity in Thailand - and her project is the largest initiative ever financed through CIDA’s Industrial Co-operation program - \$2.16 million over four and a half years - exemplifying an *aid-trade strategy*. Ms. Shore Cron is the Export Manager for Shore Holsteins International in Glanworth, Ontario. When she joined an Agriculture Canada dairy technical mission in 1988, she quickly saw that although Thailand wants to replace dairy imports with domestic production, it lacks the best technology and genetics. “These people are very intelligent and have a lot of book knowledge, but not practical experience,” says Cron.

Working through a *respected agent* in Thailand, she pursued the initiative with enthusiasm. For her family-owned company, it has meant selling 110 heifers, one bull and 100 frozen embryos, and providing project management on the Canadian side. As well as positioning Shore Holsteins for further sales to Thailand, it serves as a convenient showcase for customers in other countries in South and East Asia. The project itself is going well. “While Thai farmers are lucky to peak at 11-12 litres a day, our animals peak at 30-32, and we don’t have things running perfectly yet.” While her initial aim was to sell embryos to Thailand, the priority has become teaching farmers management, genetics, and breeding patterns. She shows the hallmark of the entrepreneurial spirit--flexibility and adaptation.

There’s a message here readers. The perception is that entrepreneurship is domestic, male oriented and has to do with business as distinct from social skills. But these women operating in Asia demonstrate that entrepreneurs (even small ones) are found in export markets and in difficult markets. And that women are showing a particular aptitude in export markets which demand a particular entrepreneurial skill--social and cultural sensitivity.

The report from which this information is drawn will be available shortly from the ISTC Business Services Centre, call 666-0266.

Entrepreneurship

A Competitiveness



SPECIAL FEATURE

The Canadian economy is in transition; our traditional resource-based enterprises aren't creating the profits and jobs they used to; business managers/owners, politicians, economists and academics are all grasping to find new ways to generate and sustain economic activity--income and jobs. The opportunity is ripe for entrepreneurship and indeed it may be one of the key ingredients to putting Canada back on the road to competitiveness.

What we're talking about is an attitude, a set of values, that is as key to competitiveness and excellence as are effective management practices, research and development and education. Whether in business or public service, entrepreneurship means taking risks, anticipating, encouraging and initiating change and treating failure not as the end but as an investment, a learning experience. In economic measures, it's business start-ups and failures, dynamism and prevalence in export markets. And in individuals, it's people who challenge conventional thinking, see opportunity from a different perspective, and view business as honourable and rewarding.

Why is it we're so keen on this concept of entrepreneurship? Because entrepreneurship pays big dividends for society. Entrepreneurs are a tremendous outlet for economies undergoing periods of adjustment because they create--they create the business alterna-

tives that provide jobs and income; they become the vehicle for new investment; they stimulate diversification and economic growth.

An entrepreneurial society isn't characterized by people who "can't see the forest for the trees", something we see too often in Canadian private and public sector. We are facing declining employment in our traditional (and largely non-entrepreneurial) resource sectors. What we need are the entrepreneurs who can pinpoint the changing and fast-growing sectors of the economy, and seize new opportunities. And these opportunities rarely fit the way industry and government has traditionally approached or defined the market. We need people who see with different eyes--new products, niche markets and who possess the entrepreneur's instinct for top quality products and service.

Now, we aren't suggesting that Canada doesn't have any of these entrepreneurs, just that we need more of them. We need to re-examine our attitudes to ensure that our society is one which fosters and nurtures entrepreneurial values, ideas and practices. And that means being open to change some of the ways we operate and do business--how banks assess business risk and failure, how organizations foster creativity, how management motivates and rewards

employees, how decisions are made, how we respond to new ideas and how governments deal with the service quality imperative. Whether you work in big business, in service, government or academia, the concepts still have application. Below are some common entrepreneurial characteristics--take a look to see which ones you have and which ones you can nurture.

Entrepreneurs are creators. They value creating something new and innovating over concepts like competency or efficiency in a job. They spot new opportunities and then put together the talent and management necessary to bring them to fruition. You're like that aren't you?

Entrepreneurs are *motivated by the need to achieve* rather than a need for power. Power and recognition can be elements but they are not the prime motivators. Entrepreneurs realize dreams and uncover unoccupied niches.

An entrepreneur has the *ability to measure, assess and take risks*. The entrepreneur determines the inherent risk of a project and is willing to accept this risk if he/she feels they have the skills and necessary experience for success. They are not blind to risks, they manage them.

Entrepreneurs possess *great confi-*

A Competitive Federal Budget?

dence in their skills and abilities to achieve objectives and meet challenges. They are not afraid to be personally responsible for the success or failure of an operation.

An entrepreneur *sees profits as a means to evaluate performance and achievement of objectives*. They are motivated more by need of achievement than by money, prestige or power.

And finally, entrepreneurs *view failure as a learning experience*. Most entrepreneurs haven't started just one business, they've had a few--some failed and some succeeded. But they learn from their mistakes. In fact, some bankers prefer to work with entrepreneurs who have already had one failure--because they are better prepared to succeed in the next one (as long as they didn't fail at their branch!).

There are other entrepreneurial characteristics, some which you may not have. What you need to be able to do is recognize the ones you have and absorb the ones you lack from the people around you. In business and in government, we need to encourage people to express their creative ideas, take calculated risks in decision-making and then hold them responsible for those decisions. And we need to make failure less of a career-ender and more of a career enhancer.

The state of Canada's international competitiveness has become a crucial issue for all the stakeholders in the Canadian economy. The February 25th Federal Budget contained evidence that the Federal Government is responding to some of the demands for action. Several measures proposed in the Budget are noteworthy:

(1) Manufacturing and processing:

The Budget proposed to *increase the capital cost allowance* rate for eligible manufacturing and processing machinery and equipment (class 39) from the current 25% to 30%. Also, currently, manufacturing and processing income is eligible for a 5% reduction from the general tax rate (reducing the tax rate on these profits from 28% to 23%); the Budget proposed a *further reduction* in this rate to 21% - phased in at one percentage point on January 1/93 and another on January 1/94.

(2) Other Changes: The Budget proposed to *reduce the withholding tax rate on direct dividends* paid to non-residents beginning January 1/93. The rate would be reduced to 5% over a 5-year period; the Budget proposes to increase the maximum credit for *investments in labour-sponsored funds*, relax the eligibility criteria for national funds and increase the limit on the size of firms in which a fund may invest; also, the Budget proposes to *broaden the scope of the Small Business Loans Act* by increasing

the maximum individual loan amount - from \$100,000 to \$200,000; finally, measures were announced to begin *streamlining government and improving efficiency*, (e.g., consolidating business services in one place and moving to single registration numbers for businesses dealing with government).

The Budget does address some basic concerns of business - concerns including *taxation* and its impact on operating costs and investment; supplies of flexible, low-cost *financing*; and, a more *competitive public sector*.

The Budget proposals will not, alone, arrest the competitive slide of Canadian industry; that will result from aggressive and sustained action taken by firms (management and labour) within a climate which nurtures that action. The Budget is a modest step toward a more competitive framework.

This newsletter is published quarterly. For more information contact:

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