COLLABORATION TECHNOLOGY
The Blueprint for Successfully Connecting with Your Customers

BUILT TO LAST
Collins Industries Ltd. – Lessons in Family Succession & Lean Processes

DON’T LEAVE THE VITALITY OF YOUR BUSINESS IN THE HANDS OF THE TAXMAN
Remedy an Audit with a Tax Controversy Specialist

WHEREVER BUSINESS TAKES YOU
If you hear the echo of a moose call at MNP, chances are Clayton is preparing for an upcoming hunting expedition or inviting team members to a meeting. However, when it’s time to get down to business, his approach rings with enthusiasm, humour and an unwavering focus on delivering excellence.

Before his career in the financial industry began, Clayton lived a totally different life. At the age of 21 he earned his pilot’s license in Medicine Hat, AB while playing for the Tigers in the WHL. “When the NHL dream didn’t pan out, I was pretty happy I had used my signing bonus from the Philadelphia Flyers (6th round draft pick, #116 overall in the 1991 NHL Entry Draft) to set up a small rental property company and buy that 1979 Chev pickup. The proceeds from my company helped fund my next steps and I still drive that pickup truck to work,” Clayton confesses.

In 1999, Clayton moved overseas to play hockey in the ISL Superleague and attend the University of Wales and Nottingham Trent University, where he earned a Master of Business Administration in International Business and Culture in 2002.

An avid traveler, Clayton did consulting work with the Zhejiang University in Hangzhou, China on World Trade Organization impacts and then went on to study distribution networks in Rome, Italy. When Clayton returned to Canada, he embarked on a new career with the Bank of Montreal in Aboriginal banking. Working closely with First Nation and Métis communities throughout Alberta and the Northwest Territories, it wasn’t long before he was invited to join MNP’s Aboriginal Services Group and help build the firm’s practice; providing consulting, accounting and business advisory services in over 150 Aboriginal communities.

Clayton has also played a key role in the development of MNPs Aboriginal Self Employment and Management Training programs, customized training designed to develop business and entrepreneurial skills for Aboriginal entrepreneurs and management. Since inception these programs have trained over 2,000 participants across Canada.

“As a member of the Métis Nation of Alberta, it means a lot to me that I have personal and professional opportunities to help First Nations and Métis communities achieve their goals while honouring their unique traditions.”
How equity crowdfunding can help grow your business

So you’ve got a brilliant business idea: the next wildly successful start up. The challenge? You need capital to get off the ground. After putting in your own funds and collecting contributions from friends and family, you set your sights on attracting outside investors. Yet acquiring capital is rarely that straightforward.

“Once you go to a financial advisor like an investment dealer, exempt market dealer or a securities advisor, you’re running into some serious costs,” says Doug Bedard, MBA, Senior Vice President and Director, MNP Corporate Finance Inc. “Entrepreneurs are looking into equity crowdfunding as a DIY, cost-efficient way to raise capital.”

Crowdfunding involves raising smaller amounts of funds from a larger group, typically through an online portal. Most people are already familiar with donation or reward-based crowdfunding via sites like Kickstarter or Indiegogo. On these sites, would-be ‘investors’ or funders pledge a small amount of money to a brand in exchange for some sort of benefit, like receiving a product or being publicly thanked for contributing.

Equity crowdfunding, in contrast, makes the funders shareholders in the business, giving them a viable stake in the company’s success and entitling them to securities, such as shares, limited partnership units or promissory notes. Compared to donation-based crowdfunding, both the risks and rewards are higher. Up until recently, these types of opportunities, through sites like SeedUps Canada, Exempt Capital Network and Optimize Capital, have only been available to accredited investors, which account for a relatively small percentage of Canada’s population.

However, as of March 2014 several of Canada’s provincial securities regulators have proposed new ways entrepreneurs can expand their equity crowdfunding reach. The investors don’t need to be accredited, but there are limits as to how much any one investor can contribute. The new rules are expected in 2015.

“When you’re building an equity crowdfunding campaign, you can share your story, potentially get millions of eyeballs on your idea and gain crowd validation for your business plan,” says Stephen Warden, a Partner in MNP’s Public Companies Group. “If you can capture the imagination of the public, you can be wildly successful. Part of the challenge is biting off more than you can chew. You may potentially go from start up to full operating mode very quickly.”

Capacity is just one challenge entrepreneurs need to consider before launching an equity crowdfunding campaign. Beyond that, Stephen advises that your team, people, processes, financial reporting and financial reporting requirements must be in order. In addition, he recommends having at least 30% of your overall required capital in hand.

“Once you’ve decided how much you need to raise and in what timeframe, the next step is to speak to your accountant about what the financial reporting requirements are,” warns Stephen. “People will now be scrutinizing your business plan, budgets and finances. If you don’t have the skill set to ensure those are in order, it’s essential to work with a professional.”

“Launching an equity crowdfunding campaign is very distracting,” says Doug. “It can take you away from your core business operations for anywhere from three to six months, as you deal with marketing, investor relations and of course, ensuring you are being transparent and professional.”

After the business fundamentals are solidified, the next step is to select a suitable portal and review its requirements. Reputable equity crowdfunding portals will take on a relatively extensive vetting process to ensure both the investors and the businesses looking for funding are protected from fraud.

“It’s really important to involve your legal counsel and accountant when first thinking about equity crowdfunding,” says Stephen. “This is a halfway step toward being a public entity; somewhere between a reporting issuer and a private company. You need knowledge of how issuing equity will impact your reporting, governance and business plan.”

For more information on this topic or other related assurance topics, contact Stephen Warden at 416.515.3893 or stephen.warden@mnp.ca, Doug Bedard at 403.537.7683 or doug.bedard@mnp.ca, or your local MNP Advisor.
Connecting with your client base is critical to your business success. This includes recognizing your customers’ preferences and knowing how to meet their service expectations – both of which can be achieved through technology. “We use collaboration technology to allow businesses to differentiate themselves and gain a competitive edge by adding value to the work they do, in their industry, with their clients,” explains Scott Greenlay, MBA, Co-Leader of Technology Consulting for MNP.

“Business has always been about collaboration – with colleagues, suppliers and customers,” adds Eli Robillard, the Collaboration Practice Lead for MNP, out of his Toronto office.

Scott agrees. “The oldest form of collaboration was meeting face to face and working together. That became mail and telephone and email, and it has expanded exponentially from there. Yet the fact remains the goal is the same – to work together,” he says. Technology makes distance collaboration less expensive and more efficient.

But it’s not just about closing the physical gap, it’s also about creating a better experience for your clients and your own staff. “Collaboration technology can allow you to bridge the impersonal gap that email and voicemail has caused – allowing you to participate in discussions where everyone has an opportunity to add their two cents in on a topic,” says Steve MacLean, the National Microsoft Practice Lead and a Technology Consultant for MNP in Winnipeg.

The prospect of using collaboration technology can seem formidable. Learning how to use a new technology – especially if you go it alone – can be a costly process of trial and error.

What’s biggest – or newest or most trendy – is not necessarily the right collaboration technology for your operation and implementing it in the wrong way can drive away clients and staff. “We strive to bring clients back to the basics starting with a needs analysis,” says Scott.
THE GRASS ISN’T ALWAYS GREENER…

At MNP, the selection process starts with two simple questions: What is your business? And, how can technology help you grow that business and make it more efficient? Consultants tune in to your entire organization and present choices you’ll benefit from and use.

There are many businesses out there still using shared network drives because the costs of owning and operating their own infrastructure is too high. “One of the most exciting trends we’re seeing is this stampede to cloud-hosted services like Office 365. Our clients can get all the benefits of secure document management, search, team sites, team calendars, and information portals on a subscription basis, where before these needed a big investment in staff and hardware,” says Eli. “Steve and I recently visited a client in Winnipeg who was really excited he could finally move e-mail and document management for his administrative staff and call centre to the cloud, freeing him to spend more of his time and resources on solutions, and less on operations.”

The technology implemented should reflect the organization’s goals, whether immediate or long term. If your goal is your destination, collaboration technology is the vehicle that gets you there efficiently.

MAKING YOU FEEL AT HOME

Emphasis should be put on knowing your organizational environment and the capacity and preferences of the people in it. More than ever, organizational culture impacts employee satisfaction and overall productivity. In turn, technology consultants must consider what’s best for successful adaptation by users of the technology.

“We know everyone works best under different conditions. We want collaboration technology to make the people using it comfortable, inspired and effective, to also make the business effective and successful,” says Scott.

Ongoing support for users is also essential, adds Eli. “We follow through on service; we don’t drop technology in and leave, we offer training and change management services to ease the transition. We want to empower people to use technology with confidence, to their fullest potential,” Eli explains.

Accessibility and organization is key. Collaboration technology can house data and processes that otherwise monopolize time without adding value to your business activities. “Looking for last week’s meeting notes for 30 minutes isn’t a good use of your time. Collaboration technology makes information and data accessible to all the people who need it, when they need it,” says Scott, adding intuitive structure can be built around everything to increase efficiency and productivity.

“We also want clients to have a safe and accessible place to store data for as long as they want. Technology can archive material you aren’t using right now but aren’t quite sure you want to get rid of either. Throwing it away or storing it in a manner that might not be accessible or intuitive when you’re looking for it later – like on discs or flash drives – can cause you stress and cost time later. Technology can provide a space where the material is out of sight and out of mind for now, but easily retrievable if you or a customer want it,” explains Eli.

NOT A COOKIE-CUTTER NEIGHBOURHOOD

For businesses striving to create value, capitalize on their abilities or grow strategically, a one-trick pony won’t cut it. “Our firm doesn’t have the education or knowledge barrier others do—we have 25 areas of specialization and the people in them help to make sure the technology we create serves those industries and clients,” says Scott.

The beauty of collaboration technology is its versatility and variety of form, so you’ll get the most benefit from working with a custom-built platform. “If you’re government, your goal might be about creating a better experience for the people you’re trying to serve—the public. Governments don’t view their service model as a competitive model but they strive to be effective and we support them in that. For a non-profit organization, the priorities might be efficiency and cost-effectiveness. What they save by not implementing unnecessary technology they can put back into their efforts to serve clients,” says Scott.

GOOD FENCES MAKE GOOD NEighbours

When implementing collaboration technology legal, regulatory and privacy requirements that apply to your business must be taken into consideration to reduce risk and increase the confidence of your clients.

Whether it’s AODA for accessibility compliance, data security and sovereignty issues that prevent you from using U.S.-hosted cloud software or basic client privacy considerations, there are tailored solutions available for your business.

The right technology solution creates a ripple effect—the performance of processes can be optimized for a single project, a single customer or an entire organization. Before you know it, you’re spending less time planning how to conduct business with others and more time being creative, productive and profitable.

For more information about this or any other technology issue, contact Scott Greenlay at 204.924.7501, Eli Robillard at 416.263.6990, Steve Maclean at 204.924.7517, or contact your local MNP advisor.
By the time they had driver’s licenses, Jason and Ryan Collins already had a good understanding of the structural steel industry. The brothers focus and commitment allowed them to develop their expertise by working throughout their father, Paul Collins’, company.

“I started in the shop doing odd jobs at 14 years old,” remembers Ryan, Vice President of Collins Industries Ltd. (CIL). “After high school I did fabrication and welding and eventually I was asked to help with estimating and project management.”

Truly a family business, Paul Collins founded CIL in 1984 after working with his own brothers in the steel industry. Based on values of teamwork, integrity, reliability, continuous improvement and a caring philosophy, the Edmonton company serves the commercial, industrial and institutional steel fabrication markets. Those founding values haven’t shifted over the last 30 years or during the transition from Paul’s leadership to Jason and Ryan’s leadership.

“We learned early on success in business can be drawn out in the same way success in families is created – putting others before yourself, working from a set of shared values and being committed enough to make those difficult discussions from time to time. The rest just follows,” explains Jason, President of Collins Industries Ltd. and Paul’s eldest son. CIL is proof of how their selfless work dynamic has led to success – they’re now an industry leader in turnaround times for structural steel fabricators.

The official succession from Paul Collins to his sons occurred in April 2013, but the changing of the guard had long been underway, with Jason and Ryan combining efforts to manage the company’s direction and internal processes. Their interest in effecting positive change and broadening their portfolio was the catalyst for bringing MNP on board in 2007. Their compatibility with Ian Meier, CA, a Partner within MNP’s Assurance Services and CIL’s General Practitioner, was immediate.
“We saw there was a need for some guidance regarding our management, strategic planning and financial objectives. We knew we needed help to do that effectively and without disrupting our staff or jeopardizing our business. Ian’s method was immediately compatible with our values, goals and personalities,” remembers Jason.

Ian worked with Jason and Ryan to achieve consistency in their management and outline their strategic plan for diversification. His seat on CIL’s Advisory Board allowed him to gain insight to support the Collins’ development of a realistic and balanced plan of action. He continues to meet with CIL regularly to help them establish priorities and make challenging, strategic decisions. “Jason and Ryan are highly intelligent and effective business people. Their determination to learn and work with me was evident from the beginning and continues to be a driving force for their success,” says Ian.

With continuous improvement in mind, Jason and Ryan focused on gaining more efficiency throughout the company. They know good teamwork doesn’t automatically convert to maximum efficiency if processes and infrastructure don’t support it.

“MNP helped us realize it was our role as leaders to represent CIL in the industry and in the community, to foster and create new relationships. We couldn’t do that effectively if we micromanaged the shop. Ian helped us to think and act strategically and to empower our own staff,” says Ryan.

The brothers stepped back and built the capacity of management. “Jason and Ryan put efforts into having the right people in the right place and let them do their job with decision-making authority,” explains Ian.

They drove progress even further by reviewing processes and applying lean practices at all levels of the company. They recognized their staffs’ time was monopolized because of day-to-day inefficiencies; and with a 62,864 square foot facility spanning 5.5 acres, efficiency was key.

Implementing lean was a natural fit – Jason’s MBA and the brothers’ decades of exposure to shop, office and industry practices added credibility to the process. Through years of investment company-wide, CIL eliminated unnecessary processes and created a culture of analysis in which staff are encouraged to question the status quo. By applying thoughtful and efficient processes, CIL’s dedication to lean practices and strategic management have increased the business’ profitability.

Expertly trained and knowledgeable staff and rising efficiency allowed Jason and Ryan to focus on changing roles and business expansion. Ian provided key succession services to manage the tax structure related to the purchase of the company from their father. MNP conducted corporate reviews and assisted in the acquisition of two companies that have filled out the Collins’ portfolio and profile in the steel industry.

Ian assessed the value of potential purchase companies for financial benefit and strategic fit. He also provided support on human resources and shareholder relations. “Businesses should strive to maximize their market share and growth potential. That’s done in a variety of ways, such as expanding locations, improving processes and developing their industry and product range,” Ian says.

Jason and Ryan are continuing to think strategically as they seek opportunities to grow and collaborate – key success factors that allowed them to land a prestigious Royal Alberta Museum project. CIL coupled with Ledcor Design Build Inc. to provide components for the project. Set to open by 2016 in the Arts District of Edmonton with a completion budget of over $300 million, the much-anticipated museum is a shining star in the Collins’ portfolio.

“We partnered up with a designer because we knew together our value would be exceptional. That strategic collaboration got our team the job,” explains Jason. “We aren’t perfect, but we strive for continuous improvement and we expect lean and strategic management to be a long-term, continuous effort. I think we have the best crew in the industry and that team includes MNP. Their contributions help us plan for the next generation of this company, not just the next quarter.”
Don’t Leave the Vitality of Your Business in the Hands of the Taxman

Remedy an Audit with a Tax Controversy Specialist

Running a business is a complicated endeavour and owners strive to do it all, and do it right. Receiving a notice of audit letter from the Canada Revenue Agency can be one of the most unnerving and stressful experiences for a business owner – and with good reason, since the time, stress and cost of a tax audit could cause an otherwise stable business to lose its focus and come to temporary halt.

“For business owners, dealing with tax auditors fractures their ability to concentrate on their operations,” explains Charles Leibovich, BCL/LLB, TEP, Leader of MNP’s Tax Controversy Services. “Tax controversy can affect any type or size of business. But it’s especially true that small to medium-sized businesses face the possibility of losing their senior staff entirely to the process.”

Today more than ever Canadian businesses are facing increased tax scrutiny. The Canadian income tax system operates on a self-assessment system allowing the CRA access to examine books and records belonging to a company to investigate the accuracy of tax compliance. An auditor can review income tax returns, GST/HST returns and payroll documentation, making their reach extremely broad.

“In the last few years we’ve seen a noticeable increase in audits,” says Charles from his Montreal office. “Governments faced with a deficit had turned to their tax departments to fill this void by adopting aggressive audit positions. Some of their focus has been on deduction of business expenses.”

Charles adds the tax department has had difficulty with non-compliant taxpayers and is now shifting its focus to our clients, compliant taxpayers, who are more easily accessible. “We have also noticed trends with the CRA requesting personal financial information from shareholders of private businesses. While now a routine request, this can be the trigger to a personal net worth audit.”

The audit lifecycle can vary considerably. Auditors can look back up to four years from the date of a filed tax return and that reach can expand if they feel there is a suspicion of fraud. The audit trail can be quite an involved process, with certain types of businesses requiring more supporting documentation than others.

Trying to predict whether you will be audited is as iffy as trying to predict if you’ll get the flu, and there’s no vaccine against it. But some peace of mind can come from having the right support. “You need to work with a specialist – someone who faces audits on a regular basis, not someone who just files taxes,” says Charles.

Loren Kroeker, Senior Vice President of Taxation Services with MNP, agrees. “Our goal is to work with the auditors to bring about resolution that is fair and appropriate.”

Audits require action from both sides: just as it’s the job of the auditor to request and review material, it’s the job of the tax controversy specialist to know how to respond to the questions asked, what notices to file and what interpretations to apply to protect your business. “The cost of having a specialist represent you and your interests is going to be minimal compared to what you might be assessed based on the interpretations of an auditor – and it could save your business altogether,” says Loren. Tax controversy doesn’t have to define your business or determine your long-term success if you have the support of a specialist like Charles or Loren, who suggest a number of strategies to help you before and during an audit.
PREVENTATIVE MEDICINE

1. Focus on pre-audit prevention to alleviate stress should an assessment letter come to your mailbox. Have your documentation in order. “Business owners have a lot on their plates and asking them to look back on their tax filings can be asking a lot. If you’ve had a specialist managing your taxes, there’s excellent documentation and increased confidence,” says Loren.

2. File accurately and on time. Even the most honest and accurate file can be audited, but completing your taxes well from the start – and doing so consistently – goes a long way to lessening the pain down the road.

TREATMENT

1. Facilitate the audit. Allow your specialist to manage the technical tax issues as well as the logistical issues. “It’s our job to remove the source of the anxiety – the audit process itself – from your day-to-day business life so you can focus on your business. When we take the audit out of your physical and mental space, the rest of your business doesn’t suffer in the same way,” says Charles. You’ll be brought into proceedings when necessary and your staff will be kept out of them, keeping the scope of the audit in check.

2. Seek resolution – swiftly and fairly. “It’s in everyone’s best interest to close the file as both sides of the table are pouring resources into the audit,” says Loren. Do not be afraid to speak to the auditor’s boss in an attempt to resolve the file.

3. Be prepared to negotiate. If you work with an auditor and their supervisor in a constructive matter, you may be able to resolve a tax audit in the least painful manner. Tax audits are a question of dollars and cents. At a given moment, it may be cheaper for you to pay the tax at a reduced, negotiated amount than continue fighting.

4. Be prepared to appeal an incorrect tax audit bill. The CRA has a separate division that reviews a notice of assessment if requested by a taxpayer. A specialist who understands the process, the law and what the Appeals Division requires can help.

5. Payment terms – A specialist can help you negotiate payment terms with the collection department so the audit bill does not cripple your business finances. “Our goal is to ensure our clients only pay what’s owed, if it’s legitimately owed. We work with the collections department to agree to a payment term that will benefit everyone. It’s cooperation like that which ultimately allows CRA to close files and also allows businesses to live another day,” says Charles.

For more information about this or any other tax issues, contact Charles Leibovich at 514.906.4640 or charles.leibovich@mnp.ca, Loren Kroeker at 250.734.4330 or loren.kroeker@mnp.ca, or your local MNP Advisor.
MOVIN’ ON UP TO THE NEXT LEVEL OF YOUR BUSINESS

As you experience more business success you may find you’ve outgrown your current place in your industry. Move your business up to the next level – it can broaden your opportunities by providing access to new and significant clients and markets, allow you to expand products or service lines and increase profits. If you’ve outgrown your existing environment you might want to look at movin’ on up.

Growing and nurturing a business might be daunting, but it’s far from impossible and shouldn’t be put off. Take it from Dave Zimmel, CA, CPA (IL, U.S.A.), CMC, Vice President of Private Enterprise for MNP, who has been providing business advisory services to clients for over 30 years. “‘Business as usual’ can be the trap that restricts owners and managers from ever realizing their potential,” says Dave from his Calgary office.

In the beginning, owners are focused on conducting ‘critical’ business – like fulfilling contracts and managing general finances. When they reach a comfortable level of success they often exhaust their growth potential because they don’t know any other way of doing business.

It’s all about the business life cycle, explains Dave. “Owners often do everything themselves in the beginning. It can be a really difficult transition for owners to make the change from critical business management to strategic business management.”

Many owners or managers will say they just don’t have the time for strategic planning. But with others, it’s a mindset – they believe spending time on a strategic plan is equivalent to wasteful daydreaming.

“Neither is true,” says James Byrne, CA, a Business Advisor with MNP’s Forestry Services Team. “It’s not about a lack of time, it’s about time management. And it’s not about wasting time, it’s about investing it in the future of your company.”

Owners need to strive for balance. Exclusively putting energy into some areas of a business over others will deprive the other areas and hold the entire business back from experiencing growth. MNP’s Balanced Scorecard Approach to strategic management helps prevent this issue.

From his office in Port Moody, B.C., Darrell Enderson, CA, an Advisor in MNP’s Assurance Services, says businesses should plan to grow every part of their organization in a time-released manner. “That growth should be realistic and sustainable across the organization and the people in it. Too little and too much may result in less optimal results.”
To Thine Own Self Be True

Sustainable growth can take several years of executing specific steps while balancing immediate and long-term needs.

Darrell emphasizes the importance of fostering entrepreneurial spirit amongst employees by breaking down the business into segments to determine financial and qualitative goals and measurable attributes. Staff should set segment-specific objectives and measure them routinely along a defined timeline. “The final assessment is done by the employees. This process showcases their success or challenges in achieving the desired objectives,” says Darrell.

For others, growth means developing industry capacity. “I work with a client who owns a home building company around the Calgary region,” says Dave. “We’ve worked together for over a decade; he’s moved from a start-up with 8 staff to a sophisticated business with well over 135 employees across several cities,” says Dave.

Applying the Scorecard technique allows users to view their business goals and business activities at the same time, to align efforts that cover financial and non-financial considerations. “Eventually, clients engage business strategy in their day-to-day, which is critical for businesses of all shapes and sizes,” explains James. Success in each area should be evaluated and adjustments in strategy made as necessary. Over time, users learn how to grow their business without making unnecessary trade-offs between areas.

The plan should create optimal performance across the Scorecard areas of finances, customer/stakeholder satisfaction, business processes and organizational capacity to create more value. The value created won’t go unrewarded – owners will retain current clients and attract new ones, and investors and buyers will take notice, increasing financial security and providing opportunities for succession in the future.

Looking Back to Move Forward

The process starts by reviewing current and past management processes with a critical eye – to grow a business, users should expect to find areas where they can apply change. “Typically we start by assessing a client’s financial statements and their management processes,” says Darrell.

development slowly and consistently across his entire company. He’s moved from a start-up with 8 staff to a sophisticated business with well over 135 employees across several cities,” says Dave.

Growing pains should be expected, but shouldn’t deter users. “Evaluating the whole business, not just one point of interest, will help you plan for everything – debt management, investments, expansion, marketing, succession, technology or processing upgrades and human resource development, to name a few,” says James.

Breaking down a business across the Scorecard provides the ultimate bird’s-eye view for owners. “When objectives and results are broken down into smaller and more manageable segments of the organization, the challenges, successes and goals of each are considered and the organization as a whole follows a better path of sustained growth and profitability,” says Darrell.

For more information about this or any other business advisory issue, contact Dave Zimmel at 403.263.3385, James Byrne at 778.225.7240, Darrell Endreson at 604.949.2101 or your local MNP Advisor.
Seal the Deal with Vendor Due Diligence

Acquisition due diligence has long been an expected and valuable information-gathering process for purchasers investigating a planned acquisition. Vendor due diligence on the other hand, is a relatively recent newcomer to the negotiating table. Yet it is already exerting a strong influence on the ability to successfully close sales transactions.

With complexity the norm in today’s business, regulatory and accounting environments, acquiring an understanding of the risks of a deal has become intensely challenging. Banks, private equity investors and other lenders and purchasers are therefore more focused than ever on evaluating prospective acquisitions for potential future problems and liabilities.

Defensive Due Diligence has Become Mainstream

With an increased focus on understanding the full business picture on both sides of the table, vendor due diligence is becoming more mainstream among mergers and acquisitions. Also referred to as defensive due diligence, it is a systematic review of the current state of the business a vendor proposes to sell. The vendor commissions this review prior to preparing sales materials. Vendor due diligence aims to pre-empt the discovery of deal-breaking issues, assists in sustaining value from a Letter of Intent up to closing and helps to reduce the time involved in a transaction process.

“Defensive due diligence identifies gaps that a prospective purchaser would find when evaluating an M&A transaction,” says Aleem Bandali, MBA, Senior Vice President & Director, Corporate Finance in MNP’s Vancouver office. “The more gaps a purchaser finds, the more it will discount the company’s enterprise value. But if the seller finds and addresses these gaps before the purchaser does, the vendor is able to present a significantly more appealing investment.”

Defensive due diligence is intended to provide a balanced analysis of a company, its market, competitive environment and future prospects in order to anticipate questions, alleviate concerns and facilitate a speedy and successful transaction. This review also informs the seller of any issues that could be problematic in negotiating a sale, thereby providing an opportunity to build enterprise value before entering into discussions with potential buyers. In fact, vendors gain the following advantages by initiating due diligence prior to launching the sales process:

• Control over the sale process – by addressing any serious issues that could derail a deal.

• Credibility for facts and figures – by providing a thorough analysis.

• Ability to focus on running the business – saves management time and resources by eliminating duplication of responses to questions from multiple potential buyers.

• Enhanced company productivity and profitability – by identifying solutions that optimize business performance.

• Reduced risk of bid withdrawals and price chipping – by addressing issues that may concern potential purchasers.

• Facilitate acquisition financing needed to close the deal – by providing lenders with clearer insight into the business.
The Benefit of a Review

Ultimately, this type of review supports a higher sales price. “One of our clients commissioned a due diligence review a year prior to presenting the company to the marketplace,” says John Caggianiello, CPA, CA, Senior Vice President & Director, Transaction Advisory Services, based in MNP’s Toronto office. “Our professionals estimated the current value of the business at $25-$30 million. They also estimated the potential sale value at $35-40 million – provided the owner addressed certain aggressive tax and accounting transactions with significant risk of tax reassessment, as well as incomplete financial procedures they believed would raise red flags among potential purchasers.” The owner adopted the recommendations and “within months, the operation was turnkey for potential purchasers,” says John. “The sale was completed soon afterward and the vendor realized $10 million in additional enterprise value above the original sale estimate.”

The process of conducting due diligence, which typically takes two to four weeks, is customized to the needs of the seller, the proposed transaction and the size and scope of the business. “Relying on our experience with hundreds of transactions, our professionals use a knowledgeable, risk-based approach to identify and focus on the issues that are critical to the proposed transaction,” says John.

The end result is a detailed report that provides interested buyers and lenders with a clear, comprehensive picture of the business, which they can use to determine a fair price for their expected return on investment. From the vendor’s perspective, this means a higher probability of closing the deal.

A Proactive Approach Saves You Time and Money

Within today’s M&A marketplace there are an increasing number of international purchasers and investors, and they often present Letters of Intent with high valuation multiples. John cautions, “It’s important to understand that in many competitive auction processes, potential buyers are putting forward offers that assume a ‘perfect’ business in order to win the auction process and get the vendor under exclusive terms. After a prospective purchaser begins its own due diligence, the offer typically falls in value and the transaction can stall or even stop because of ‘surprises’ that arise and for which the seller is unprepared.”

In contrast, when the vendor initiates due diligence at an earlier stage, the seller is able to view the company from the perspective of a third party. This prepares the vendor with an understanding of potentially problematic issues, what can be done to address these challenges and what price range is reasonable to expect.

If you are contemplating the sale of your business at some point in the future, consider undertaking defensive due diligence early. “Ideally one to two years prior to starting the sales process,” suggests Aleem Bandali. “This will allow time to address any problems, undertake appropriate structuring and tax planning and to plan the optimal timing to take your business to market.” Moreover, early vendor due diligence will increase the probability of hearing those golden words, “You’ve got a deal!”

For more information on this topic, contact John Caggianiello at 416. 513.4177 or john.caggianiello@mnp.ca, Aleem Bandali at 778.374.2140 or aleem.bandali@mnp.ca, or your local MNP Advisor.
All professionals – whether dentist, lawyer, veterinarian, engineer or others – operate in intricate and risky environments. “It’s virtually impossible for a busy professional to perform their own demanding work while also monitoring every detail of their practice to ensure it’s operating at peak performance,” adds Mariesa Carbone, CA, ABCP, CRMA, an Enterprise Risk Services professional based in MNP’s Edmonton office. “This service does that for you. It establishes the proper framework, controls and practices that enable you to mitigate fraud and run your business more efficiently.” The health check assesses the operating practices and internal controls of a professional firm, compares them with leading industry practices and legislation and provides specific strategies to improve them.

“Our process begins by meeting with the practice owner to discuss needs, concerns and priorities. From there, we conduct interviews, examine documents and review processes to gain an understanding of the business,” says Mariesa. “Finally, we benchmark those processes against industry best practices to prioritize areas for improvement and timelines.”

Calvin Carpenter, CA, Vice President of Professional Services adds, “If needed, we can also provide guidance with implementation, as well as tools, templates and other materials to ensure quality procedures are put into place.”

What can professionals expect from the health check? “We frequently uncover discrepancies that save our clients significantly more than they invest in this service,” Calvin says. “We get to the root of problems and quickly resolve them.”

While MNP tailors each health check to individual practices and circumstances, the following areas of focus typically represent the most significant risks and the best opportunities to improve profitability.

“In a busy environment where owners of professional practices have so many demands on their time, the Professional Services Health Check is a comprehensive safety check that enables them to sleep at night. It identifies both critical risks and opportunities to build value, while also providing practical steps to protect and strengthen the practice.”
Is your business operating at optimal effectiveness?

**Goal** – Ensure the processes and controls supporting the practice – from booking appointments to financial reports to performance measures – are designed for maximum efficiency and effectiveness.

**Why this is important** – Professional practices are complex operations, with processes that must be carefully integrated: establishing billing rates, monitoring staff capacity, balancing client/patient scheduling, executing timely billings and collection of accounts, producing timely financial information and more.

**How it works** – MNP reviews business practices and the internal controls framework to identify opportunities to enhance operations, safeguard assets and improve the bottom line.

Is your practice protected from fraud?

**Goal** – Establish internal controls to prevent and detect fraud.

**Why this is important** – The bad news: 69% of Canadian companies were affected by at least one incidence of fraud in 2012/2013, with an average loss of 1.7% in revenue. Billing schemes, cheque and payment tampering, expense and payables fraud and skimming are the primary methods used to defraud professionals. The good news: the presence of anti-fraud controls significantly decreases the incidence of fraud.

**How it works** – MNP conducts a thorough assessment of current preventive procedures and vulnerabilities, then provides recommendations to address the greatest areas of risk including controls to prevent theft, fraud and embezzlement.

Are you in compliance with mandatory privacy legislation?

**Goal** – Establish best practices in records management to ensure privacy of employee, client/patient personal and health information and compliance with relevant legislation.

**Why this is important** – Professional practices must collect, record and retain a significant amount of confidential information while complying with federal or provincial privacy legislation. Legislators are becoming increasingly stringent about enforcing compliance and addressing infractions.

**How it works** – Many practices find it challenging to comply with far-reaching and ever-changing privacy legislation. MNP assists in developing a customized framework that is aligned with information systems and internal controls to ensure a practice meets current legislative requirements for the collection, retention and destruction of information.

Is your data secure?

**Goal** – Ensure effective information technology (IT) controls are in place to protect data and systems.

**Why this is important** – As the scale and sophistication of IT security threats continues to escalate, the safekeeping of data is increasingly critical.

**How it works** – MNP’s Technology Specialists conduct tests to close security gaps and ensure practices align with any industry requirements. This involves reviewing general IT controls and vulnerabilities to determine whether they are operating effectively and to expose any weaknesses in the information system security framework.

Do you have backup strategies for potential disruptions?

**Goal** – Ensure the practice is able to continue operating in the event of an unexpected disruption or disaster.

**Why this is important** – The ability to adapt rapidly and effectively in response to a disaster, crisis or other disruption is essential for protecting any business.

**How it works** – MNP’s Resilience Professionals identify potential threats and risks and help put into place protective strategies and processes to maintain operations and protect assets in the event of unexpected interruptions.

For more information about the Professional Services Health Check, contact Calvin Carpenter at 780.453.5360, Gordon Chan at 403.537.8429, Mariesa Carbone at 780.453.5377, or your local MNP Advisor.
MNP Moments
Rooted in community, history and our profession

As a firm, supporting the communities in which we live and work has always been at the centre of our core values.

As such, we are very excited to share two significant events MNP is proud to be a part of: The opening of The Canadian Museum for Human Rights and the CPA Canada Roundtable with Prime Minister Stephen Harper.

MNP is a proud supporter and friend of the Canadian Museum for Human Rights

After 14 years of work, Canada’s first national museum outside of Ottawa – the Canadian Museum for Human Rights in Winnipeg – has finally opened. To mark our commitment and support, our CEO, Daryl Ritchie, was present at the opening ceremony.

MNP’s Winnipeg office has a long history of supporting the city they are proud to call home, so when asked to offer our support, our firm did not hesitate. This museum also represents some of the values we hold dearly as a firm. We are proud of our diversity and our Canadian values – and there is virtually no other aspect of that as important as respect for human rights.

The museum’s aim is to serve as a hub for global human rights leadership and promotion. This is a significant milestone for the city and our country as a whole, and MNP is incredibly proud to be a Friend of the Museum.

The structure, built of glass, stone, concrete and steel is built near the site of the Métis rebellion led by Louis Riel in 1869. With 11 galleries and 24,000 square metres of floor space, the museum encourages visitors to make many return trips.

MNP is a proud supporter and friend of the Canadian Museum for Human Rights

CPA Canada Roundtable with Prime Minister Harper

On Wednesday August 13, MNP Chief executive Daryl Ritchie had the pleasure of meeting with the Prime Minister of Canada, the Right Hon. Stephen Harper in a roundtable discussion in the Toronto CPA Canada offices.

The meeting, organized by Kevin Dancey, president and CEO of CPA Canada included senior executives from BDO; Deloitte; Ernst & Young LLP; Grant Thornton LLP; KPMG; MNP LLP and PwC Canada.

We had the opportunity of discussing a number of major issues with the prime minister and look forward to future dialogue.

CPA Canada has been established to support Canadian provincial accounting bodies that have unified and all those that will unify, under the banner of Chartered Professional Accountant as part of the unification of the Canadian accounting profession.

Photo Credit: Jason Ransom, Office of the Prime Minister

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