

EASTBOURNE

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Competition Policy Review Panel
280 Albert Street, 10th Floor
Ottawa, ON, K1A 0H5

December 10, 2007

Re: Submission to the Competition Review Panel on Issues presented in *Sharpening Canada's Competitive Edge*

Dear Sirs:

As consultants and educators in the field of corporate growth and innovation, we offer the following comments and observations:

A. State of Affairs

1. Canadian enterprises, except for the manufacturers of some very few 'world-class' products and natural resources companies, do not produce for international markets. Their productivity is therefore hampered by Canada's small population.
2. Other small countries are much more successful in producing world-class products (i.e. Israel and Switzerland). The common denominator of these countries is that their manufacturing capabilities are built on a foundation of innovation.
3. While part of the problem in Canada is the difficulty in raising venture capital, our position is that the main issue is a lack of training and capabilities in the processes of innovation.
4. Company executives know that there is greater profit and growth potential in innovative product and service offerings but they do not know how to implement innovation processes and methodologies, nor do they know how to measure and manage the processes. They therefore do not attempt to implement innovation programs within their organizations.
5. In addition, successful innovation within organizations requires a shift in the corporate culture, and this is also a difficult process.

6. Canadian companies must become more innovative in order to make products and provide services that are attractive to international consumers.
7. We suggest that the Panel consider initiatives to educate and train Canadian enterprises in the processes of innovation.

B. Innovation and R&D

1. Innovation should not be confused with R&D. R&D operations are only part of an innovation capability. To concentrate on R&D operations only is a policy error.
2. R&D is focused on physical products. Physical products and their manufacture are a declining portion of economic activity in the developed world.
3. The Booz Allen Hamilton annual Report on Innovation (December, 2007) indicates that there is no statistically significant connection between what a company spends on R&D and its financial performance.
4. Successful (and exportable) new business models are built around *new technologies as they intersect with new services and new consumer relationships (i.e. Google, Facebook, the Internet)*.
5. R&D departments are the realm of engineers and scientists. They are not, and should not be, called upon to deliver in the areas of consumer services and value chain relationships.
6. The Panel also needs to consider ways to help support the non-R&D segments of any competitive policy initiative.

C. The Innovation Eco-System

1. Best business practices dictate that world class companies operate with the understanding that new products and services are to be developed both in-house (R&D departments, new business development departments) and brought in from the outside. For instance, Proctor & Gamble has mandated that a majority of its new products are developed outside of the company. This ensures that they are constantly innovative and in touch with their consumers' desires.
2. To be successful, companies must have access to an eco-system of outside innovators. These players include commercial research organizations, venture capital portfolio companies, university-based research groups, industry sponsored research, private inventors, inter-company co-development groups and government research initiatives.
3. The Panel should consider ways to assist companies in accessing the eco-system. In addition, the Panel should look at ways to train both the companies and the eco-system in promoting innovations that can be rapidly commercialized.

D. Training

1. Some of the partners of Eastbourne teach at the Shulich Business School, as well as consult. We believe that corporate innovation training is important and that it has not been given adequate consideration in business schools. This is part of the issues surrounding Canada's competitive position.
2. Expertise in innovation techniques and processes can be taught. Industry has indicated that it needs and wants the training. If the Panel thinks it as important as we do, there should be put into place a government initiative to train companies and agencies in innovation methodologies. In addition, there needs to be training in corporate cultural change.

Conclusion

We believe that Canada, in order to be competitive, needs to be a nation of nimble, innovative companies that make leading-edge products which command premium prices in the world's markets. This requires an environment fostering innovation eco-systems and executives comfortable with developing innovative products. Both these requirements can be met with modern policy initiatives to support such outcomes.

If we can assist the Panel further in its deliberations, please feel free to contact the undersigned.

Yours truly,

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