Media Report

November 17, 2010

Summary of Kelowna Chamber of Commerce & Meyers Norris Penny
Economic Review and Outlook Survey Results

According to reports from the government, the recession is over. In order to understand the impact of the recession and the HST on the local economy, the Kelowna Chamber of Commerce and Meyers Norris Penny LLP (MNP) partnered for the second year in a row to survey the Chamber members about their business performance to date in 2010. Chamber members were also asked questions about some specific business issues facing the Kelowna marketplace.

Between September 21st and October 20th, 2010, approximately 1400 Chamber members were contacted by MNP. The response rate was 23% with 96 surveys completed on the phone and another 225 completed online, for a total of 321 survey responses. In 2009, this survey generated 334 responses.

General Overview of Results
The recession appears to have taken its toll on Kelowna businesses with fewer expecting to be profitable in 2010 (57.7%) than were in 2009 (60.5%). A greater number in 2010 than 2009 expect to breakeven which has seen the rate increase from 17.0% to 21.5%. The top five most reported obstacles facing businesses in 2010 are the economy, consumer confidence, the HST, staffing challenges and slowdowns in specific industries. These are the same challenges that were cited in the 2009 survey, with some slight changes in order.

Two thirds of respondents reported that the HST will have a positive impact on sales or net income or a completely neutral impact on their business. Despite the fact that 74% of respondents feel the Kelowna economy has not recovered from the recession, 73% of respondents are optimistic about 2011, expecting to be profitable.

Slightly more than half of the respondents have had difficulty finding young qualified employees and the resounding rationale is the cost of living in Kelowna, with 72.3% of the responses.

Two thirds of the respondents report that the reduction of green house gases is important to their business, but only 47.4% are willing to incur additional expenses to help with the reduction.

The survey consisted of five sections:

1. General classification
2. Business performance and key obstacles (2009, 2010, 2011)
3. HST & the recession
4. Human Resources (Succession planning, hiring, compensation)
5. Greenhouse gases

General Classification

Using the Chamber classifications, respondents were from a wide range of industries in Kelowna. 9.9% of the respondents were “consultants & contractors” and another 9.2% were from “business services”. Other key categories were retail (7.6%), financial services (7.3%) and government agencies (7.3%).

The distribution of the respondents by size of company was reflective of the size of businesses in the Okanagan with 54.8% of the respondents from businesses of 10 or fewer staff and a further 14.3% from businesses of 11-20 people.

88% of the respondents classified themselves as “expanding” or “mature” businesses as opposed to “start up” or “winding down”. Despite the difficult economy, there were 36 companies who considered themselves in the start up phase and only 2 in the “winding down” phase.

Business Performance and Key Obstacles

The recession had a significant impact on the Kelowna economy. In 2009, 83% of the respondents reported being profitable in 2008 and 73.6% of the businesses were performing as expected or better than expected in 2009. In 2010, these latest survey results indicate that 60.5% of the businesses were actually profitable in 2009 – a substantial difference from the 73.6% who expected to be. Looking forward to 2011, 73% of the respondents expect to be profitable. In 2010, 21% of businesses expect to have a loss, but only 5.8% are expecting a loss in 2011. This confidence may be due to the “end” of the recession or just a general optimistic attitude of local business owners. Either way, the outlook is positive. A steady 21% of respondents expect to breakeven in both 2010 and 2011.

When business performance is examined by the development stage of the business, the outlook for 2011 is very optimistic for all segments. The performance from 2009 to 2010 for start-ups was favourable, while fewer expanding and mature companies reported profits in 2010 than 2009. Despite the economic conditions, it is encouraging to see that start ups were able to prosper from 2009 to 2010.(However, failing companies are often not able to participate in the Chamber and therefore not captured in this survey).

Start Ups	2009	2010	2011
Loss	46.7%	32.4%	17.2%
Breakeven	16.7%	23.5%	17.1%
Profit	36.6%	44.1%	65.7%

Expanding	2009	2010	2011
Loss	15.8%	19.2%	5%
Breakeven	18%	16.7%	13.3%
Profit	69.2%	64.2%	81.7%

Mature	2009	2010	2011
Loss	23.5%	18.8%	4%
Breakeven	18.3%	24.7%	28.8%
Profit	58.1%	56.5%	67.3%

The challenges encountered by the local businesses have remained consistent over the last two years and are expected to stay basically unchanged into 2011.

Q6 – What are the key obstacles facing your business so far in 2010?

Question asked --	In 2010 Survey		In 2009 Survey	
Economy	53	19.2%	46	21.2%
Consumer Confidence	29	10.5%	16	7.4%
HST	25	9.1%	11	5.1%
Staffing Challenges	22	8.0%	15	6.9%
Slowdown in specific industry activity	16	5.8%	5	2.3%
Competition	14	5.1%	13	6.0%
Access to capital, financing, cash flow	13	4.7%	7	3.2%
Marketing	13	4.7%	5	2.3%
Funding cuts	10	3.6%	7	3.2%
Tourism slowdown	8	2.9%	3	1.4%
Lower sales	7	2.5%	11	5.1%
Increased costs	6	2.2%	4	1.8%
Too busy	5	1.8%	3	1.4%
All other	55	19.9%	71	32%

Q14 - What do you expect to be the largest obstacle to face your organization in 2011?

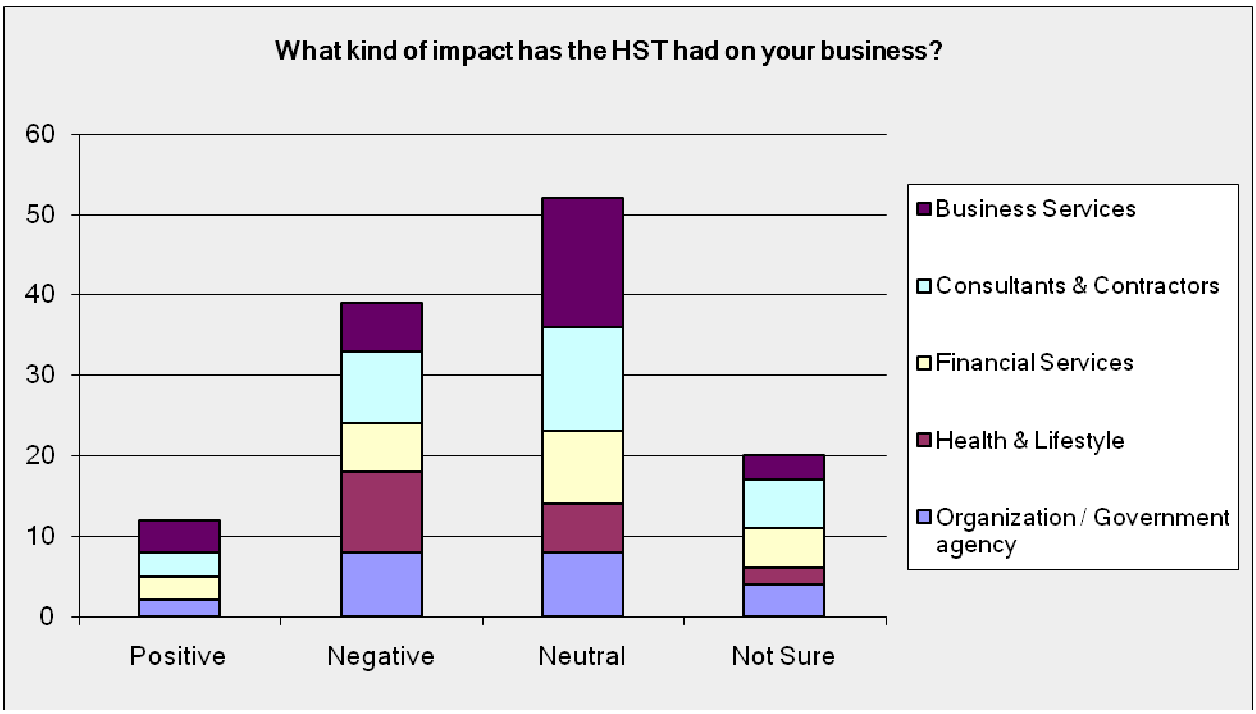
Economy	45	17.9%
Consumer Confidence	26	10.3%
Staffing Challenges	25	9.9%
Sales	19	7.5%
Competition	16	6.3%
Funding cuts	14	5.6%
HST	11	4.4%
Marketing	9	3.6%
Cash flow, access to capital	8	3.2%
Increase in costs	7	2.8%
Industry slow down	6	2.4%
Tourism slow down	5	2.0%
Interest rates	4	1.6%
All other	57	23%

The economy and consumer confidence currently are and are expected to continue to be the top two obstacles facing local businesses. HST was a top three issue for 2009 and 2010 but dropped to only 4.4% of the responses for 2011. Staffing challenges has become an increasingly more important issue for businesses.

The HST & Recession

With the HST being reported as the third biggest obstacle facing local businesses in 2010, it is interesting to see that 45% of the respondents reported that so far the impact of the new tax has been neutral with a further 11% reporting positive consequences. 31.8% of the respondents reported a negative impact. The majority of businesses are confident that they have transitioned to the HST (83.3%).

74.1% of respondents feel that the Kelowna economy has not recovered from the recession. 18.1% weren't sure and 7.8% responded positively.



The majority of the businesses in 3 of the development stages all reported the HST to have no impact on their business in the long term:

Start Up – 62.9%
Expanding – 52.3%
Mature – 55.8%

Human Resources

39% of the local businesses polled indicate that in the next 5 years they will be experiencing some succession related issues. Almost 50% of the respondents do have a succession plan in place. When asked about attracting young employees to Kelowna, 51% indicated that there are barriers; the most common barrier being the cost of living /

housing at 72% of the responses. Salary and compensation standards in Kelowna are set in a variety of ways including head office direction, industry standards and the competition. 52% of respondents think that there is a need for a salary and compensation survey to be conducted in Kelowna.

Green House Gases

Two thirds of the respondents report that reducing green house gases is important to their business. However, only 47.4% of respondents are prepared to incur additional expenses to help with the reduction and the majority would only tolerate 1-5% increase in their annual expenses.

For further information, please contact:

Shelley Brodeur
Regional Marketing Manager
Meyers Norris Penny LLP
250-763-8919
Shelley.brodeur@mnp.ca

Weldon LeBlanc
CEO
Kelowna Chamber of Commerce
250-469-7356
Weldon@kelownachamber.org