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Chair

Mr. David Sweet

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● (1535)

[*English*]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good afternoon, ladies and gentlemen. *Bonjour à tous*.

Welcome to meeting number 73 of the Standing Committee on Industry, Science and Technology.

We are actually having two one-hour meetings, because although we know technology is moving at a rapid pace, there's still a complication with having multiple languages by teleconference. That's why we're separating the two meetings into one-hour meetings.

In our first meeting we'll have Martin Lavoie with us here live. He's the director of policy, manufacturing competitiveness and innovation with the Canadian Manufacturers and Exporters. By video conference, from the Fédération des chambres de commerce du Québec, we have Françoise Bertrand, president and chief executive officer, as well as François Morin, chair of the information technology committee.

We'll begin right now, and we'll start with our live witness first.

Mr. Lavoie, I believe you've been told you have about six minutes for your opening statement, so please go ahead.

Mr. Martin Lavoie (Director of Policy, Manufacturing Competitiveness and Innovation, Canadian Manufacturers and Exporters): That's what I was told. Thank you.

I'm live and I'm not a robot. Thanks for inviting me.

Mr. Chair and members of the committee, thanks for the opportunity to discuss the importance of the adoption of digital technologies among SMEs.

For many SMEs, the adoption of digital technologies in the business context is often referred to as electronic commerce. In manufacturing, however, electronic commerce goes beyond the traditional activities of buying goods or services through the Internet. We estimate that business-to-business transactions represent between 80% and 90% of all e-commerce activities. Those business-to-business transactions happen in two major fields of business activity in our membership: supply chain management, where suppliers are integrated in the manufacturing process and parts and components can be ordered and delivered just in time; and research and development, where digital solutions are used to share and analyze large data and to perform simulations jointly with research partners.

In addition to business-to-business platforms, digital technologies are also used in the manufacturing factories in areas such as R and D, rapid prototyping, and assembly lines. The adoption of digital technologies has already had a huge impact on the productivity of companies. Today, companies are able to develop, design, test, market, and sell complex consumer products using e-commerce tools and by tying various global suppliers together virtually. For example, cars and trucks in the automotive sector, which a decade ago took about five to seven years to get from concept to the local showroom, are now brought to market in two to three years, on average. Corporate research and development, while still centrally controlled, is now conducted throughout various portals globally.

In Canada, about 50% of all investments in machine equipment are in equipment related to information and communication technology. If you compare it to 20 years ago, almost 100% of machinery and equipment investments were in non-ICT equipment, so we've made a lot of progress. However, a lot of work still remains to be done. One of the challenges we have in Canada is to accelerate the adoption of digital technologies by companies so we can catch up with the rest of the world, particularly with the United States. According to the latest “State of the Nation” report published last week by the Science, Technology and Innovation Council, in 2009, Canada ranked 9th out of 20 countries with respect to business investment in ICT equipment. Although Canada ranks higher than some of the key advanced economies, such as France, Japan, Finland, and Germany, it still trails the top five performers: the U.S., Sweden, Denmark, the United Kingdom, and New Zealand. Compared to the U.S. alone, Canadian companies invest about 42% as much in ICT equipment as their U.S. counterparts.

Let me talk a little bit about what we think governments could do to accelerate the adoption of ICT equipment among SMEs.

The first way would be to look at the tax treatment of ICT equipment. This would be capital expenditure related to information communication technology. Although Canada has made some progress in recent years to allow companies to depreciate a larger share of their investment in ICT machinery and equipment, most other countries have taken a much more aggressive approach to accelerate the adoption of digital equipment. As an example, the elimination of capital expenditure under the scientific research and experimental development tax credit, to be implemented fully next year, is going to make Canada one of the few countries in the world that does not offer a significant tax credit or an accelerated depreciation rate for the adoption of ICT equipment for R and D purposes. I would strongly encourage the government to revisit its decision to completely eliminate capital expenditures under the SR and ED program.

In terms of machinery and equipment used for actual production, so no R and D purpose, again, there are no specific tax incentives in Canada to accelerate the adoption of ICT equipment. The accelerated capital cost allowance for machinery and equipment used for manufacturing and processing does not cover computers, data processing systems, and software, which are in a different class of assets under the CRA rules. However, the federal government did provide an accelerated capital cost allowance specifically for ICT equipment between 2009 and 2011, but that lasted only two years.

The second way to accelerate the adoption of ICT equipment would be to explore other forms of support, such as direct funding or innovation voucher programs. Because accelerated depreciation might not be enough, especially for SMEs that are not yet profitable, the accelerated depreciation is not fully useful for them. This is why other countries have used technology voucher programs to accelerate the acquisition of digital equipment. Countries such as Austria, Belgium, Denmark, Finland, the Netherlands, and the United Kingdom have all implemented voucher systems, with more countries attempting to follow this path. A program can be set that offers vouchers for the purchase of advisory services in e-commerce, systems integration software, or digital content. This is another area the government could look for in the Canadian context.

● (1540)

Although we do have in Canada a program called the digital technology adoption pilot program, referred to as DTAPP, I believe their funding is ending this year. It was a three-year pilot program. I'm not sure if it has been renewed or if it will be renewed.

The program was a good starting point, although the acquisition of computers, hardware, and off-the-shelf software is not eligible for funding under this program. A bit more than 600 companies will have received funding at the end of the three-year program. It's a good program, but you will agree with me that more could be done to reach out to more SMEs across the country.

The third point I would like to raise is about the open access policies, which are crucial to Canada's digital competitiveness. We often hear that Canada usually ranks poorly in terms of Internet prices and speed.

It's essential that the government implement open access rules that would force Internet network owners to share their infrastructure with smaller competitors. The choice is still very limited, and a lot of barriers are in place, so conversion to fibre networks in large commercial and institutional buildings is still very limited. I think you heard about this lack of choice from the CFIB when they appeared here. I won't spend too much time on it, except to say that we very much share the same concerns.

In conclusion, I remind you about the importance of the digital economy for productivity in manufacturing and in other sectors of the economy. I think looking at current programs and what is being done in other countries would be a good way to see how government can accelerate the adoption of ICT equipment.

Thank you very much.

[*Translation*]

The Chair: Thank you, Mr. Lavoie.

Mrs. Bertrand, you now have six minutes for your presentation.

Mrs. Françoise Bertrand (President and Chief Executive Officer, Fédération des chambres de commerce du Québec): Thank you, Mr. Chair.

I would like to talk to you some more during the question period. So I have invited the chair of our committee on information technology, François Morin. He is the expert on that topic within our membership. He can discuss issues, barriers and obstacles faced by our members, and put forward solutions for improving productivity in information technology.

● (1545)

Mr. François Morin (Chair, Information Technology Committee, Fédération des chambres de commerce du Québec): Mr. Chair, thank you very much for the opportunity to speak to the committee today.

As you know, technological innovation has always affected the way we do things and has directly contributed to global economic growth. Historically, Canada and Quebec have always been symbols in technological innovation. It's very important to point that out.

There are endless examples of technologies' positive impacts, and businesses from all sectors are constantly benefiting from the advancement in information and communications technologies. All too often, people forget that the first ATMs were designed and installed in Quebec, and that Montreal was the birthplace of word processing. The telephone was also invented in that city. Canada and Quebec have many world-class technology companies, global centres of expertise and multinationals. As a society, we must find innovative solutions to new challenges at all times.

Currently, we are seeing a slow-down in R & D, a shortage of specialized resources, training gaps and lack of advancement for young people. We are also seeing a drop in the support provided by governments, which have the ability to create conditions that foster innovation as a factor of competitiveness and productivity.

In order to ensure their future and distinguish themselves on the global stage, Canada and Quebec have to ask themselves the right questions. Reduced investments in information technology constitute a short-term solution. Of course, such a downturn helps strengthen a company's balance sheet, but only for a few quarters. Eventually, the company will lose not only its capacity for lower-cost production, but also its intelligence. It sacrifices its capacity to create new products and destroys its ability to manufacture them more efficiently.

Every significant study carried out in Canada and the United States has come to the same conclusions. We must encourage and invest in sources of long-term growth. Clearly, the technological sector will provide the foundations of that growth to improve productivity and provide our Canadian and Quebec companies with all the production flexibility the new world order calls for. The Fédération des chambres de commerce du Québec has a few relevant recommendations.

As governments, companies and organizations, we must promote a culture of innovation by raising awareness of the challenges involved and recommending actions that will position Canada and Quebec at the forefront. We must establish or enhance government programs targeting technological investment in businesses. We must develop a Canadian digital economy policy that fosters the development of innovation and productivity. We should also help Canadian leaders better understand the increasingly important role technologies play in the development of our economy, and encourage them to show commitment to that cause. We must also encourage Canadian companies to show leadership and mobilize in order to help us prosper as a country.

Finally, we must show that technological progress remains the best and the most effective catalyst for stimulating business innovation.

Thank you very much.

[*English*]

The Chair: Thank you very much, Mr. Morin.

Now we'll move on to our rounds of questions.

Mr. Lake, for seven minutes.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

Martin, perhaps I'll start with you. You talked about ICT and investment, and ICT with members of your organization. I believe you said it went from pretty much 0%, at one point, to 50% of investment in.... Was it just in machinery and equipment?

Mr. Martin Lavoie: It's not only in our membership but in general. In the Canadian economy 20 years ago, pretty much all the machinery and equipment that was bought was not necessarily related to ICT. Today about 50% of the machinery and equipment is actually related to ICT.

More and more of the machinery that a manufacturer will buy will probably include a sensor or some sort of system that can be tied into an Internet system. The reason is that manufacturers want to know in real time, for example, the data on whether a machine is actually performing or not. It's used for maintenance, for breakouts, and stuff like that.

I think it's just a reflection of the evolution of the ICT nature of manufacturing processes in general.

● (1550)

Hon. Mike Lake: When you're talking about investment in ICT, and you're talking about machinery and equipment, it could be confusing for people to understand what the definition of ICT is in that context, in terms of the equipment.

Mr. Martin Lavoie: Yes. ICT in general refers to information and communication technology. In a business context, most of the time you would be referring to computers, the hardware and the data processing, and to telecommunications, the phones and other kinds of telecommunications devices.

What you see a lot of in manufacturing is advanced manufacturing, where you're trying to tie in machinery and equipment to a mobile computing system or the Internet. For example, I heard about one of our members who asked this company to develop an application on their iPhone, their smart phone, so that they could actually know in real time the production of certain types of machinery—the speed, how much time it took to repair, stuff like that. So instead of losing maybe an hour and half when a machine breaks, perhaps he'll lose only half an hour.

That also is productivity. Sometimes people refer to productivity as replacing three workers with a machine. But productivity is also about repairs, maintenance, and how you actually maximize the performance of the machine.

Hon. Mike Lake: You talked at the start of your presentation about supply chain management. Maybe you could elaborate a little bit on how technology is changing supply chain management.

Mr. Martin Lavoie: In terms of the supply chain, you're talking more about web portals, about Internet services used in supply chain management. I guess 30 years ago you were managing your supply chain by taking the phone, sending a fax, making three carbon copies, or something like that. There was some time required between how many products you had in your inventory, ording your products through your supplier, and getting products to your customers. Using business-to-business Internet services, of course you can do that in real time.

This is not just in manufacturing. When you walk into Walmart and buy something, they automatically know how much is left in the inventory. There may be a message being sent to the supplier already to say, okay, we need to order 100 of these units. It will come automatically.

This is a huge productivity increase, when you think of it in these terms, but it's not referring to machinery and equipment; it's more referring to using Internet services to maximize the relationship with your stakeholders, with your suppliers, or with your research partners.

You now see a lot of use of high-performance computers to do simulation, for example. In certain sectors, such as aerospace, they will simulate a certain type of environment to how it affects a certain material. A high-performance computer can tie all of your research partners into the same virtual system.

That requires very advanced machinery, but I think the important thing to keep in mind is that this advanced software requires advanced computers, and these advanced computers require a rapid network. If you have old copper infrastructure in your building, you're not going to be able to acquire a high-performance computer and conduct your R and D.

That's why I also want to point out—the CFIB pointed this out as well, I think, when they came here—that there's conversion to be done, in certain types of buildings, from copper to fibre, for example, so that you can have all these great things that technology can give us.

Hon. Mike Lake: Right.

Changing gears a little bit, you mentioned the SR and ED tax credit. I had a meeting in Edmonton a couple of years ago with some manufacturers praising the SR and ED tax credit. But it was interesting, because as we had the conversation, there seemed to be a common theme in terms of the discussion: this tax credit is fantastic; it's really helped our company; we hired a consultant who went back several years and helped us to recoup money through the tax credit.

The story seemed to me, as I was listening to it, to be something that.... You know, while it's an important tax credit, the story I heard over and over again was that these were investments that we were making already; we were able to receive tax credits for investments that we'd already chosen to make when we didn't know there was a tax credit to be had.

Mr. Martin Lavoie: There is certainly...and I'm not sure if it's just about R and D tax credits. I guess if you were entitled to this tax credit, you would claim it. I'm sure certain consultants would go though your files and maximize your return. Does that mean that...?

Yes; probably, if they did these investments in the past, you're right, they would be doing it anyway. If they now get an additional $2 million, let's say, because of previous activities, are they going to increase their R and D spending in the future, or are they going to put that $2 million in their pocket?

I would argue that most companies would re-spend it on R and D and try to raise their ratio of R and D the next year, right? I hope so.

● (1555)

Hon. Mike Lake: Certainly, we have to find that balance, I guess. As a government, of course, one of the other things we want to do is make sure that we maintain the strength of the Canadian economy, because the Canadian economy is very strong relative to other industrialized countries. We want to make sure that we maintain that strength. So there's a trade-off. For example, we've lowered taxes significantly; there is a 15% corporate income tax right now. Much of what has been proposed by others would require more government expenditure, maybe higher taxes.

I guess it's probably not so much a question, because my time is up, but more of a comment that there's always a trade-off to those proposals that could cost a lot of money.

The Chair: That's exactly what it will have to be, a comment.

Thank you, Mr. Lake.

Now to Madam LeBlanc.

[*Translation*]

Ms. Hélène LeBlanc (LaSalle—Émard, NDP): Thank you. We're very happy about that.

I want to thank our guests for joining us today. It will be a pleasure for me to speak to them in French.

I have read the evidence from our meeting last Tuesday. One witness said that Canada currently did not have a long-term digital strategy, and that this had repercussions on our economy. Mr. Lavoie, I think you mentioned that in your presentation, as did Mrs. Bertrand and Mr. Morin.

I would like to put my first questions to the representatives of the Fédération des chambres de commerce du Québec.

In Canada, we have no digital strategies or long-term visions, and harmonization is lacking among federal and provincial programs, and small and medium-sized companies. Do you have anything to say about that?

Mrs. Françoise Bertrand: Mr. Morin will probably be able to add something to my comments.

Yes, we think that a digital policy would be key for sending a message. The main issue is network accessibility. We have to ensuring accessibility to those networks by making information technologies sufficiently affordable. A strong dollar makes that possible.

In addition, we must have a consistent thought in order to support small businesses. My colleague, Mr. Lavoie, has talked about companies, but it's certainly a matter of medium-sized businesses and not small companies. They must be told that they need training.

Nowadays, having a good idea of accountability or legal conditions is no longer enough to manage a company properly. Companies now need to include in their team young people who are familiar with technologies in order to incorporate 21st century methods into their marketing and their business networks. A digital policy could certainly provide the required financial incentives, but it would, above all, clearly announce that companies must keep pace with various digital trends. Fibre optics are not the only area of focus, as the industry is increasingly turning toward mobile platforms.

Would my colleague like to add something to this?

Mr. François Morin: I think that companies in general should follow the federal government's leadership when it comes to the implementation of a digital economy policy.

The Conservative government has already made announcements about the implementation of those modules, but there's still a lot of work to be done—be it in the area of telecommunications deregulation or government programs that foster technological investments. Overall, we must develop a digital economy policy that will enable Canada to show its leadership and that will help companies clearly see that our country has an important vision and strategy in digital economy.

● (1600)

Ms. Hélène LeBlanc: As you said so well, Mr. Morin, it's a matter of creating favourable conditions. Thank you.

Mr. Lavoie, I think you talked a bit about what Mr. Morin pointed out—the fact that we have piecemeal programs. Certain programs are in place for a year, and then things change. That creates a great deal of uncertainty and a lack of predictability for companies that may want to implement technologies adapted to the needs of small businesses—as Mrs. Bertrand said—but also to the needs of larger companies.

Do you agree with our previous witnesses, who said that we should implement a long-term digital strategy?

Mr. Martin Lavoie: Absolutely. I agree with you that those programs were somewhat piecemeal.

The adoption of digital technologies is a means to an end. I think that the end we are trying to attain is greater productivity. The adoption of digital technologies is not the only way to get there, but it is part of a broader set of tools. Mrs. Bertrand was talking about workforce training. Of course, that is another option. The treatment of expenditures in the tax system is another very important way to achieve that. We cannot, on the one hand, want companies to purchase more equipment and, on the other hand, eliminate the tax treatment that makes it possible to buy that equipment. That is contradictory.

Between 2009 and 2011, accelerated depreciation occurred in the case of certain telecommunications pieces of equipment, such as computers, but that only lasted for two days. The objective was to stimulate the economy during a period of global recession. I think that the long-term objective is not only to stimulate the economy, but also to really improve productivity. I think that's a long-term objective, and we could apply that objective over the next 50 years, if we wanted to.

Ms. Hélène LeBlanc: The broadband spectrum auction we hear so much about is set to take place in the fall, and rules have been established.

What does the Federation des chambres de commerce du Québec think about that? Are you following this issue, especially when it comes to the accessibility for small businesses you talked about?

Mrs. Françoise Bertrand: I will let my colleague answer the question.

I am both the President and Chief Executive Officer of the Fédération des chambres de commerce du Québec. I also chair the Quebecor board of directors. So I think this is an extremely important issue, and I hope you will move forward in that area.

However, I will let Mr. Morin talk about that.

Mr. François Morin: Mrs. Bertrand, I would have liked to hear your opinion.

I think there is a great deal to be done when it comes to the upcoming spectrum auctions. It is important to make broadband spectrum available in telecommunications.

That brings me to another very important debate in telecommunications—the deregulation of foreign investments in digital economy planning.

Overall, some thought should be given to the spectrum allocation process. That is what we are calling for in the area of digital economy. As our colleague Mr. Lavoie said, we want this to be given due consideration. We want questions to be asked and answers to be provided. We also want Canada to adopt a digital economy strategy that would include telecommunications, information technologies, applications, and software and equipment development.

I think that all those factors should be taken into consideration in the development of a digital economy strategy. Those factors include all the technologies in our society that would enable Canada to reclaim its position as a global leader. That is what we are currently missing.

[*English*]

The Chair: That's all the time there is.

[*Translation*]

Thank you, Mr. Morin.

[*English*]

Now on to Mr. Braid for seven minutes.

Mr. Peter Braid (Kitchener—Waterloo, CPC): *Merci beaucoup*.

Thank you very much to our witnesses for being here this afternoon.

I'd like to start actually by asking both presenters—I'll begin with you, Monsieur Lavoie—about the technology or the innovation voucher system that both presenters spoke about.

Monsieur Lavoie, starting with you, if you could, please elaborate on that program, how it might look, how it might operate. You mentioned some countries that have these technology voucher programs. Could you maybe point to one or two best-practice scenarios for us?

A third part of my three-part question is, how would such a program work alongside SR and ED, if it existed?

● (1605)

Mr. Martin Lavoie: Thank you.

Among the countries I've reviewed that provide voucher system programs for adoption of digital technology, some of them cover, more specifically, electronic commerce programs, for example, which are probably broader than those that would be accessible for a bunch of different industries.

Certainly for our sector, manufacturing, an electronic commerce kind of voucher would be interesting. When you talk about supply chain innovation and when you talk about joint research and development, these two areas would probably be interesting.

In terms of specifically digital programs, like electronic commerce incentives, you're talking about countries like Italy, which has an interesting one.

There are other programs, such as those in the Scandinavian countries. For example, in Finland and Norway they are more like digital innovation programs that go beyond electronic commerce. This is where I think manufacturing could also benefit, because electronic commerce, of course, is only one of the digital technologies in our sector. As I said before, how do you actually convert some of your old machinery and equipment into modern machinery and equipment that is tied into the Internet system so that you can then acquire some data about your production processes?

That would be a nice way to compensate for the elimination of machinery and equipment used for R and D purposes and not necessarily just for fabrication. That would compensate for the elimination of capital expenditures under the tax credit. So when I was making a reference to SR and ED, I was making reference to the elimination of the capital expenditures eligible under the tax credit.

A tax credit and a voucher are two different ways to achieve the same objective.

Mr. Peter Braid: Thank you very much.

Monsieur Morin, could you elaborate as well? You also mentioned in your presentation this notion of technology or innovation vouchers. Could you tell us more about your concept of these?

[*Translation*]

Mr. François Morin: I can give you the example of what the Government of Quebec is doing with tax credits for e-business development.

That program was implemented about 10 years ago and will end in 2015. It has been a conduit for digital economy in Quebec. Companies—both SMEs and large businesses—have benefited from it. It has even been a conduit for international companies. SITA and some other international companies have set up shop in Montreal to take advantage of that credit. This program is very simple in terms of application. I think it is a nice example of what is being done in Quebec.

The government is currently deciding whether to renew the program. We at the Fédération des chambres de commerce du Québec are strongly advocating its renewal, and even its expansion to include the manufacturing sector, which our colleague Mr. Lavoie belongs to.

I think this is a very nice example the federal government could consider. The program is simple in terms of application, and it works very well when it comes to e-business.

[*English*]

Mr. Peter Braid: Merci.

That's actually a good segue for my next question for you, Monsieur Morin. It sounds as though this is a Government of Quebec program that already exists. Are there any other programs that have been implemented by the Government of Quebec that you feel have been successful in helping to enhance the adoption of digital technology?

Mrs. Françoise Bertrand: For video games there was a similar program, but other than that.... There have been some in other areas. We would promote e-learning, which would be a good vector to invest in, but the programs are not there.

Mr. François Morin: To your point, I just want to mention that Développement économique Canada actually have some very good programs for infrastructure investment for SMEs.

The problem—and it's one of the recommendations I just shared with you today—is that it's not known. I think that's an issue.

I'm not answering your question, because off the top of my head I'm not sure if there are other programs we're aware of.

● (1610)

Mrs. Françoise Bertrand: There are not that I know of.

Mr. François Morin: But what I'm saying is that there are existing programs and there's a lack of promotion of those programs to SMEs, especially in Quebec. I met with Développement économique Canada and the BDC, and we were actually very surprised to see that those programs existed.

I think there is some work to do. This is one of our recommendations: the promotion of the innovation technology culture to SMEs, because some of those programs do exist and could benefit SMEs, especially in Quebec.

Mr. Peter Braid: You're absolutely right. We—

Mrs. Françoise Bertrand: May I share with you that there's only —

Mr. François Morin: Pardon?

Mr. Peter Braid: I was just going to say that you're absolutely right. We had the BDC at our last meeting, and they talked about one or two programs that I hadn't heard of either. It sounds like they're being very successful, so exactly....

Mr. François Morin: It's a key point. I think the promotion of an innovation culture in Quebec and in Canada should be undertaken by the federal government.

Mrs. Françoise Bertrand: That's why the digital strategy would help in that direction.

Mr. François Morin: Yes.

The Chair: Thank you very much to the witnesses and to Mr. Braid.

Now we'll go on to Mr. Regan for seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you very much, Mr. Chairman.

Welcome to our witnesses.

Mr. Lavoie, on the Canadian Manufacturers and Exporters website, you state that the organization advocates for, "manufacturing competitiveness" through "investments in productive assets: knowledge (R&D), technology (new machinery and equipment), and workforce skills."

In your view, how can a greater focus on information and communication technology manufacture more innovation and global competitiveness?

Mr. Martin Lavoie: Could you repeat the last part of your sentence?

[*Translation*]

Hon. Geoff Regan: How does greater focus on communications and information technologies help foster more innovation and global competition?

Mr. Martin Lavoie: I think we agree in saying that productivity is one of the key factors of economic growth. That's especially the case in the manufacturing sector, but also in other sectors. Think of the retail industry and other sectors where productivity issues can result in a price drop with regard to the number of units sold. In our sector, we are talking about units produced.

When it comes to that, an increase in productivity is the only way to provide a long-term response to the challenges our sector has been facing over the past 10 years. We are facing increased international competition from countries where labour is much cheaper than in Canada. We also have a dollar whose value has gone from under $0.80 to parity with the U.S. dollar. In the long term, greater productivity is the only thing that will allow Canada to manufacture products at the same price as those from countries like China, where workers have lower wages.

In Quebec, the company Mega Brands has invested in the automation of its Montreal factory and has repatriated to Canada the production that was previously being handled in China. The $30 million it has invested in its factory to improve productivity has made that repatriation worth its while. This way, the company is reducing the risks stemming from manufacturing in a country it is less familiar with.

I want to come back to what I said in the beginning. Many people think productivity implies that people will no longer be involved and that only machines will handle the production. That's not how I see things. I think that, by reducing labour costs, we can be more productive, thus enabling us to manufacture here products that would normally be manufactured in countries with cheaper labour. Our labour has become fairly expensive. Over the past 10 years, the manufacturing sector has gone from an hourly rate that used to be half as much as it was in the United States, to a rate that is now slightly higher than it is in the U.S. We are not even talking about China here. We are talking about the United States. Our labour is more expensive than U.S. labour, and we have a productivity deficit of about 50%. Currently, our problem is twofold, and we need to resolve it.

Hon. Geoff Regan: Do you see a difference between productivity and innovation?

Mr. Martin Lavoie: Some types of innovation lead to an increase in productivity, while others are less related to productivity.

There are four major areas of innovation. One of them is product innovation. If I design a new telephone, that is a new product. Another area is process innovation, which has to do with the way a machine is produced. That machine does not necessarily have to be a new product. There is also supply chain innovation, which is often referred to as organizational innovation. That has to do with the way companies manage their relationships with their suppliers, clients and so on. The last area is marketing innovation.

In sectors such as agri-food production, innovation is often related to the way products are presented to consumers. That's important. Many inventors design products in their basement, but they don't know how to market them. I think it's just as important to be innovative in marketing as it is to be innovative in processes and products.

As for which types of innovation help increase productivity the most, process innovation is definitely the first one I think of in terms of productivity, since it has to do with the way things are done. Product innovation is much less related to productivity. Its main goal is to penetrate new markets and manufacture new products. Organizational innovation also has an impact on productivity. It improves supplier response time when a component is needed to manufacture a piece of equipment, or when products must be delivered to clients. Marketing innovation is more related to product innovation than to productivity.

Basically, I would say that process innovation and organizational innovation have the biggest impact on productivity.

● (1615)

Hon. Geoff Regan: Thank you.

Mrs. Bertrand, in 1996, you became the first Canadian woman to chair the CRTC. Over the course of your whole career, you have encouraged competition and creativity.

Women account for less than 20% of the workforce in information and communications technology in my province, Nova Scotia, and less than 25% across the country. Only 14 Canadian technology companies have women among their senior management teams. Given those facts, do you think this is a problem that should be addressed? If so, what kind of a role should the government play?

Mrs. Françoise Bertrand: This is a matter of strategy.

We clearly have a problem in terms of skills. These are technological professions, and that's one thing, but there are also positions for managers who understand technologies, who promote them and know how to benefit from them. It seems to me that this could be a very good fit for women who don't want to have a career in technology.

As we know, most business schools are currently attended by both men and women. So it would be extremely important to demystify technologies in those schools and teach future managers that, without technology, their companies, regardless of the sector they are in, will not be able to remain competitive. We may be talking about competitors across the street, but also about international competitors. Globalization is not ready to go away—quite the contrary. The requirements and challenges will increase.

That's why I am talking about skills again. In Quebec, and in Saguenay, more specifically, this is not an issue of access. Information technologies are available. People have access to the Internet and to broadband networks. However, how can we explain that more than three out of four companies in Saguenay have no website? That's really a basic tool.

We can criticize companies that are not renewing themselves, but all too often, I think we have to take initiative and remind people of what is absolutely essential. For instance, we have to remind them how they can use these opportunities to access markets, to access knowledge and services that would be impossible to have without information technologies, especially outside major centres.

The Chair: Thank you, Mrs. Bertrand.

[*English*]

That's now the end of our seven-minute round. We have enough time for two more questioners.

Seeing that the last two questioners are Mr. Warawa and Mr. Harris, mentioning Mr. Harris's name reminds me that I should remind the witnesses of something. If you have any additional information that you're not able to provide in your opening remarks or by answering questions, you can submit it in writing to the clerk. He will make sure it's then in both official languages and distributed to the committee forthwith.

Now, on to Mr. Warawa for five minutes.

● (1620)

Mr. Mark Warawa (Langley, CPC): Thank you, Chair.

I want to also thank the witnesses for being with us today.

I want to focus on a 2005 study from the Centre for the Study of Living Standards. I'm sure you're all aware of that. It highlighted the differences between what is happening in Canada and the United States.

I'm quite pleased that we have the president and chief executive officer with the chamber of commerce. In my riding of Langley, the chamber of commerce is very busy and connected in encouraging development using the Internet, creating Internet sites, and providing access to the market. In spite of that, I think a vast majority of people in small and medium-sized businesses who have been doing business for a long time are not changing with the times.

The government's responsibility is to create this atmosphere for being business friendly, and I think we are doing that. But how do organizations like the chamber of commerce, and other organizations, assist business to take that step, to change with the times and take advantage of the incredible opportunities they have?

Mrs. Françoise Bertrand: That's what we do. We have created lots of initiatives with the local chambers in order to inform and educate them, because there is a matter of competency here. There's also the matter that baby boomers are not as at ease with the technology as probably the newcomers will be. There is a necessity to open up their minds, to demystify the situation by showing them, so they're learning how they can really take advantage.

Certainly my colleague, François, has already done lots of that with the smaller businesses. He can talk about specific examples.

Mr. François Morin: I think the role of the IT committee of the Fédération des chambres de commerce du Québec is actually to promote the adoption of technology. We call it technology adoption for prosperity, which is TAP. It's a program we're putting in place with the Fédération des chambres de commerce. Reducing the cycle of adoption of new technologies for SMEs is really key. I think most of the CEOs or SME presidents do understand the value of having technology, or adopting new technology, to increase productivity, to increase performance, and to be able to reach the world through the Internet. This is not even an issue any more when you reach out to those companies.

What's really important for them is the how and the what. The key right now is that there are so many offerings, IBM, Oracle, SAP, and so forth, they need to find leadership, solutions, and technology that can actually be leveraged for their own companies. This is where we are at. Technology adoption for prosperity is not a question of whether it's really important; now we need to promote how and what we can do with those technologies for SMEs across Quebec, and make sure they understand what kinds of technologies could be adopted for their own productivity and performance.

Mrs. Françoise Bertrand: Affordability, so financial incentives are key. If they are not in place, the promptness with which new approaches are adopted will be slower, and time is of the essence right now, we believe.

Mr. François Morin: Mobile applications are easier to understand for these SMEs across Quebec, as they see value using mobile applications at a low cost, and they can actually see the ROI in a short period of time.

Mrs. Françoise Bertrand: Lots don't renew their websites, but everyone has a cellphone.

Mr. François Morin: It's a lot of information that we're throwing at you, but in a nutshell, the Fédération des chambres de commerce is very active within the committee I'm chairing, and also in working with the provincial government to make sure that the program I was mentioning earlier,

[*Translation*]

tax credit for developing e-business,

● (1625)

[*English*]

will be renewed.

We're working with the enterprise, for the enterprise,

[*Translation*]

with Quebec chambers of commerce

[*English*]

and also with the provincial government.

Mrs. Françoise Bertrand: We have an initiative with local chambers in the States right now, with the help of DEQ Quebec. We are in the process of installing platforms by which we'll be doing transactional business with local business in the United States. So B2B trade is always an important component of not only manufacturing but services as well.

The Chair: Thank you very much.

That's all the time we have.

On to Mr. Harris for five minutes.

Mr. Dan Harris (Scarborough Southwest, NDP): Thank you.

Thank you for the reminder, Mr. Chair. Of course I do bring it up all the time.

To the Fédération des chambres des communes, the Business Development Bank of Canada was here earlier this week....

Sorry?

[*Translation*]

Hon. Geoff Regan: You wanted to talk about chambers of commerce.

[*English*]

Mrs. Françoise Bertrand: It's fine with me.

[*Translation*]

Mr. Dan Harris: Sorry, I meant to say chambers of commerce. I would cause trouble if I were to talk about a House of Commons in Quebec. Quebec has its National Assembly, and I'll leave it at that.

[*English*]

The Business Development Bank of Canada was here on Tuesday and mentioned programs that they have in regard to encouraging small business to build websites and to adopt technology. Are your members making use of those programs?

Mrs. Françoise Bertrand: When we do regroup our committee on manufacturing innovation...the number one institution that is helping SMEs, on all fronts, is the BDC. It is a very respected, very helpful institution that is very directed to the real needs, and the competencies of the staff are really something to praise.

Mr. François Morin: What's key here, and I was mentioning it earlier, is that a lot of SMEs in Quebec are not aware of or familiar with some of these programs. There's some promotion and awareness to be created around these programs, which by the way are very good. The question now is on having the SMEs made aware of these programs. There's some work to do there.

We are very involved with the BDC. Actually, there's someone from the BDC who sits on my technology committee.

Mr. Dan Harris: Great. Thank you.

Certainly being aware of the available programs and services is key for small businesses. As a little suggestion to the government, we would perhaps like them to advertise in those areas, instead of advertising programs that don't yet exist on *Hockey Night in Canada*.

Going on to the spectrum auction coming up this November, you mentioned, for instance, the Saguenay region, where there is access to Internet—wired and wireless. Are you hearing from any of your members with regard to a lack of access in rural areas currently?

Mrs. Françoise Bertrand: Certainly there are remote areas that still don't have broadband access. They will have local access, which of course is not optimal, but what we hear most is that they're not using the possibilities. With the mobile technology now, the more this will penetrate, the more we'll be able to say that access is no longer an issue, except for very remote regions or localities. What remains problematic is the promotion of the use of those technologies and how they can enhance their performance.

Mr. Dan Harris: Do you think the upcoming spectrum auction will help resolve many of those issues? We haven't yet heard a plan from the government in regard to leveraging the money raised from that to invest in infrastructure, particularly in rural areas.

Do you or your members have any suggestions about that?

Mrs. Françoise Bertrand: As I said, I'm in a conflict of interest given that I'm with Quebecor, and we'll certainly be filing as soon as it's opened.

But we think the more access we have, the more competition we have, and the more broadband we have, the better. Let's not pretend that we'll be wired in 10 to 15 years from now.

● (1630)

Mr. Dan Harris: You spoke about competition. Do you think there should be a set-aside for new and small entries as part of the spectrum auction?

I'll perhaps ask Monsieur Morin that question, so as not to put you in further conflict.

Mrs. Françoise Bertrand: I'm not in conflict when I talk about Quebecor, but you understand that I don't want to take the role of being the speaker for Quebecor. It's not my place.

Mr. François Morin: I think in representing the Fédération des chambres de commerce du Québec, we're open to an open market as far as the auctions. What will the government do with the money from the auction? This is something we haven't heard about yet.

I think we need to be reassured that some of the money will be reinvested in defining a digital economy strategy. We have worked with different organizations, such as ITAC, the Information Technology Association of Canada, to make sure we do understand what's going to happen with the money from the auctions.

As far as an auction, spectrum is always good. Opening it up is certainly something we need to look at and be careful about, but we don't see any issues around that.

The Chair: Thank you very much to the witnesses. We have another round that we have to get to, so we're going to suspend for a couple of minutes.

On behalf of the committee, thank you very much. Again, if you have anything else to submit, please send it to the clerk.

Mrs. Françoise Bertrand: We will. Thank you very much for your patience with us and for inviting us. Thank you.

Mr. François Morin: Thanks a lot. Goodbye.

The Chair: Thank you.

● (1630)

(Pause)

● (1635)

The Chair: Okay, folks, we're back in order now. Before us in person we have Gary Collins, who is the president of Coastal.com, and joining us via teleconference is Paul Preston, associate director of innovation policy with the Conference Board of Canada. I believe the clerk has advised you that you have around six minutes for your opening remarks.

Mr. Collins, we'll allow you to go first with your opening remarks, and then we'll go to Mr. Preston afterwards. Please begin.

Mr. Gary Collins (President, Coastal.com): Thank you, Mr. Chairman and honourable members. I'd like to thank you very much for the invitation to attend your committee hearings today.

From what I can see from the list of eminent individuals and presenters the committee has had over the last little while, you're no doubt receiving significant input, and public policy input in particular, that you'll consider and reflect on as you formulate the report and recommendations. I'll confess at the front that I am not a technology expert, so don't ask me any really tough technology questions. My days of developing public policy are also long behind me. However, as the president of Coastal, I thought I'd offer you a glimpse into a Canadian company that has used technology to become a global player in a very large optical category.

Coastal, known in Canada as Clearly Contacts, was founded in Vancouver in the year 2000 by Roger Hardy and his sister Michaela Tokarski. Roger started the business with his Visa card, with a $5,000 spending limit and his life savings, which gave him a balance sheet of $6,000. The company last year had total sales of over $200 million. Roger remains active in the business as CEO, and Michaela sits as a member of the board of directors and now resides here in Ottawa.

Coastal's original business concept was to utilize the Internet to create an efficient method of connecting consumers with contact lenses. Historically, the category was categorized by high prices and mixed levels of service. The company remained privately held until 2004, when it undertook a small initial public offering on the TSX exchange. Last October, we listed on the NASDAQ in the U.S., and we trade on both the TSX and NASDAQ under the symbol COA.

Funds raised in that initial public offering were used to acquire a similarly sized business in Sweden that was essentially a contact lens mail order business with old-fashioned paper catalogues, etc. Coastal then moved that Stockholm-based company online and has since grown that business manyfold. We're the market leader in northern Europe, and a full 33% of all contact lenses sold in Sweden are sold through our website.

Since then, through additional acquisitions and organic growth, Coastal has grown to become the leading international online retailer of eyewear, including contact lenses, prescription eyeglasses, and sunglasses. Our business philosophy rests on providing world-class customer service, the convenience of ordering over the Internet, and extremely fast delivery, in most cases overnight. Coastal inventories everything we sell, with about 15,000 SKUs of contact lenses and about 3,000 SKUs of eyeglass frames, and has an unconditional 365-day customer return guarantee.

Coastal sources its contact lenses from the market leaders, such as Johnson & Johnson, Ciba Vision, Bausch & Lomb—now a Quebec-based company, if you saw the transaction last week—Cooper-Vision, and Alcon. Over the years, we have developed strong working relationships with these suppliers. We are able to negotiate excellent terms based on high volumes, and we pass those savings on to the consumers. We typically offer consumers savings of approximately 20% to 40% on contact lenses, when compared with traditional optical retailers and eye care practitioners.

Approximately four years ago, Coastal entered the prescription eyeglass market with the same philosophy of offering convenience, speed, and great value. Coastal typically saves consumers up to 70% on eyeglasses when compared with traditional channels. To create a competitive business model in eyeglasses, we invested in the latest world-class manufacturing technology and have facilities located in Vancouver and Stockholm. The business strategy is working. Last year we shipped approximately one million pairs of eyeglasses, and we continue to grow.

To date, Coastal has shipped over one billion contact lenses globally. As a point of reference, we estimate that Coastal has now captured approximately 20% of the entire Canadian contact lens market and is approaching 10% of the Canadian eyeglass market based on units. Those are both online and off. We continue to invest in growing the nascent eyeglasses category with a strong focus on export. The online glasses market in the U.S., for example, is estimated to be penetrated less than 3% by the online sector. This is a market with $19 billion in revenue in this year. We think our online presence in this market has tremendous opportunity for growth.

Along the way, Coastal has also become a significant employer, with approximately 500 employees based in east Vancouver and approximately 750 employees worldwide.

● (1640)

Coastal is playing a key role in driving down the cost of vision care for Canadians and others around the world. We've developed a number of relationships with insurers and business customers, offering our strong value proposition to their employees and customers while at the same time reducing their costs and providing eye care benefits to their employees.

We recently signed an agreement to provide eyewear to persons supported by B.C.'s Ministry of Social Development. These are clients on income assistance or with disabilities. We'll deliver a higher level of benefits to these citizens at a lower cost to government. Find me another area of health care spending where the costs are going down.

But the benefits of these efforts don't flow only to the consumers or employees and our shareholders. One of Coastal's core values, posted on the walls in lunchrooms across the company, is “Do some good.” We've been active in our community, providing eyeglasses to those in need through our “Change the View” initiative. Our belief is that eyewear should be accessible to those who need it, and that traditional channels keep prices high, reducing access to those who need it most.

Some examples of this program in action are: providing those living in Vancouver's downtown eastside with eye exams and free glasses through Providence Health Care and the Union Gospel Mission; providing eyeglasses to elementary students in Ontario through the Toronto Foundation for Student Success; and providing eyeglasses to women in career transition through the Dress for Success organization.

Recently, we also undertook a mission to Kenya, in partnership with the Me to We foundation and Free the Children organization, an initiative that was a tremendous success. We delivered over 17,000 pairs of glasses and supplied equipment and training to set up a dispensing facility in a remote region in Africa, where previously these people had no access at all to any form of vision care.

Coastal is proud of its Canadian roots and is optimistic about the potential of the Internet and other technology to provide greater access to much needed vision care products around the world while creating a very successful Canadian export business and employing hundreds of Canadians.

This is just a quick example of how technology is changing the world by increasing the productivity of a sector and providing benefits and lower costs to government, businesses, consumers, and people in need across the globe.

Thank you very much for your time.

The Chair: Thank you very much, Mr. Collins.

Now we'll move on to Mr. Preston.

Mr. Preston, go ahead for approximately six minutes, please.

Mr. Paul Preston (Associate Director, Innovation Policy, Conference Board of Canada): I want to thank the committee and the chair for asking me to provide my perspectives today as well —especially via this medium of video conference—on this important topic. We've done a lot of work in this area, and plan to do much more, so it's our privilege to be here today.

As a not-for-profit organization, we call ourselves a think tank, which sort of conjures up the image of us sitting behind closed doors and thinking up solutions to some of the issues and challenges facing the country. While we do some of that, a lot more of what we do is engagement with a multi-stakeholder group of leaders from across the country in academia, industry, government, and other organizations. What I'm going to try to do today is provide a holistic perspective from these different stakeholder groups. That might provide value to your group.

In looking at ICT adoption among SMEs, we really see a maturity continuum, with some important considerations. At first we see automation as the simplest form of adoption. Really, it's about automating those existing business processes. It's mainly about bringing control and efficiency to the business. Of course, examples would include things like ordering, supply chain activities, inventory control, and so forth.

The next level of maturity along that continuum is around improved decision-making. Really, it's about bringing intelligence to management in this area and helping them to make better, more informed, and more timely and relevant decisions. In effect, ICT is providing that up-to-date real-time data to allow management to get themselves above the complexity of individual transactions, to see the bigger picture, hopefully leading to improved decision-making. There are a lot of examples in this area.

I know, for example, of a sawmill in Atlantic Canada that has applied CAD systems and other management systems to how they process lumber. They have this virtual technology that shows them how to optimize their processing to get the maximum yield from each timber coming through the plant. It's an SME, a small business, but it's a great example of an organization that understands the value of adopting technology for improved decision-making.

At the further end of the continuum, we see that adopting ICT in its most mature form really is about opening new markets and opportunities. It's really about identifying and exploring new markets, whether those are domestic or global markets. Really, at this level, ICT investment moves beyond infrastructure. It moves beyond simply being a method of efficiency to becoming an integral strategic asset for the business. SMEs are able to offer, for example, e-commerce solutions—as my colleague from Coastal just talked about—to reach global markets. It's about really seeing the strategic value of ICT investments in order to take advantage of global supply chains and global markets.

What we see as businesses progress through each of these levels is that they move from looking at ICT as a means to efficiency to really using ICT to be more productive and more innovative, hopefully leading to growth and export opportunities. It really allows management to step up, to be more strategic, and to leave the more transaction-based, simplistic forms of the business to a technology step.

What we've identified as a productivity gap in Canada is about $7,000 per capita for us compared to the U.S., related again to that productivity gap. We see innovation and, within innovation, ICT adoption as important drivers to help improve this productivity gap.

We also see that government can be a good catalyst for the adoption of digital technologies for SMEs. One example is CICP, the program under Public Works that is really helping businesses to gain that first sale within government. That can help to create a vibrant ICT community within the country that will hopefully translate into growth, into more adoption among other SMEs.

Another important program we've seen recently is DTAPP, the digital technology adoption pilot program, which is an Industry Canada program, obviously in partnership with the NRC. We think it's an important step towards helping SMEs adopt digital technologies, especially when you couple a program like that with some of the services offered by BDC. Really, we see some of these programs as important steps.

● (1645)

The key point in driving this digital technology adoption is that these programs need to be delivered under a coordinated, effective digital adoption strategy.

Thank you very much.

The Chair: Thank you, Mr. Preston, and Mr. Collins as well.

Now we're going to our rounds. I'm going to have to stay pretty tight if we want to get the same amount of questions as we did last time.

Madam Gallant, for seven minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman.

With regard to the contact lenses and the eyeglasses, I want to ask about the eyeglasses first. Do you just provide the frames, or do you provide the lenses as well?

Mr. Gary Collins: We purchase those products globally, the frames as well as the lenses. About 70% of the products we sell are our own brands. About 30% of the frames we sell are other proprietary brands—Ray Ban, Gucci, etc. Those frames we secure globally. We bring them to our facility. In our facility, somebody goes online and chooses the pair of glasses they want. There's a method by which you can upload your photo and try on glasses virtually. They then type in the prescription.

In our plant, as soon as they hit the button to buy, it spits out a form. They pull the various lenses from a part of the facility along with the frames. They match them. Those lenses then go through a robotic edging machine. They cut the shape to fit the frame. They then go out. They are assembled, checked for quality, and then they are shipped. If you order a pair of single-vision glasses, we can manufacture and ship those in about 0.6 days.

● (1650)

Mrs. Cheryl Gallant: How does the consumer provide you with the information from their optometrist?

Mr. Gary Collins: There are two components to eyeglass purchases. We have a feature on our website called the "Perfect Fit" tool. For those of you who are wearing glasses, if you pull them off and look on the side, you generally can see three numbers. Of course, now that your glasses are off, it's harder to read, but they are there, trust me. These are measurements for the length of the side and the bridge of the nose. You fit those numbers into the system. It will go through our 2,000 to 3,000 frames, scan through all of those, and pull up the ones that will fit you. It's essentially like a shoe size, a 6A, or whatever it is. Then you enter the prescription that you received from your eye-care practitioner. All of that goes into your file, and from there on it's fully automated. If you come back another time to purchase a pair of frames and you hit the button, all that information pops up right away.

Mrs. Cheryl Gallant: That's provided your eyes haven't changed in that time.

From the outset your company was Internet-based, so anyone who is naturally inclined to order something over the Internet would do so, and you found a way to overcome the biometric input barriers. But we're also looking at companies who haven't adapted to ICT yet. Would it be of benefit to current optometrists, people who sell frames and glasses, to go online in addition to their storefronts?

Mr. Gary Collins: Yes, it would, and many have done that, some of them more effectively than others. My experience is that businesses adopting technology, particularly the Internet and the web, often think they need a website. But they don't really know what that means, nor do they know how to make it work. So they will commission somebody's teenager to come in and set them up a website, and then it sits there, never interacting with customers. It's a far more comprehensive process to make that an efficient channel of marketing. You need to pay a lot of attention to the customers, and you need to keep on top of it all the time.

Mrs. Cheryl Gallant: You mentioned you have a place in B.C. as well as in Sweden. Do you use your own computers, or do you use cloud computing?

Mr. Gary Collins: Most of our information, our servers—we use outside servers. One of the biggest companies we use is Rackspace, which I believe is based in Texas, for our server.

Mrs. Cheryl Gallant: Rackspace is based in the U.S. and your customers are in Canada, Sweden, wherever. The data in your cloud system then is subject to the Patriot Act.

Have you encountered any difficulties, or have you made provisions somehow to ensure that personal information, especially medical information, is not delved into unnecessarily?

Mr. Gary Collins: Yes. There's a myriad of legislation regulations on eye health and protection of privacy, and we comply with all of that. We have hundreds of thousands of customers in the U.S. as well, and we comply with the U.S. privacy provisions.

Mrs. Cheryl Gallant: For the Conference Board of Canada, I see you have many products that are available over the Internet. You have your e-books, and so on. Do you conduct business using cloud technology?

Mr. Paul Preston: Currently, we have a local host provider for a lot of our IT services, so we do have some internal, but most would be a local provider, yes, within Canada.

Mrs. Cheryl Gallant: Are you aware of the number or the availability of cloud services based in Canada, or is the vast preponderance situated in the United States?

● (1655)

Mr. Paul Preston: The vast majority would be in the U.S. We do a lot of work with chief information officers, CIOs, from across the country, and the issue of creating a cloud for Canada, hosted in Canada, is of paramount importance to them. The vast majority of cloud infrastructure tends to be in the U.S.; however, there are some providers in Canada that are very close, if not there, with a true Canadian cloud offering.

Mrs. Cheryl Gallant: Are there any policies that we could implement to create an environment more favourable to developing this cloud technology in Canada?

Mr. Paul Preston: I think if you were to develop a policy, a set of guidelines or principles would be helpful for the SME community, especially those that are in supply chains for things like aerospace, defence, some of those national security relevant industries. I think a set of guidelines would be quite helpful.

The reaction has tended to be “I can't go to the cloud because it means I'm going to have to be hosted in the U.S. and subject to the Patriot Act.” There are offerings coming. There is a major telco in Canada that I'm pretty sure is there with their cloud offering, hosted in Canada, but there's still a lot of fear there.

The Chair: Madam Gallant, that's really all the time we have.

We'll have Madam LeBlanc now for seven minutes.

Ms. Hélène LeBlanc: Thank you.

Thank you very much to the guests.

Mr. Preston, at Tuesday's meeting, digital technology analyst Michael Geist criticized the government for its failure to present a cohesive digital economy strategy. According to Mr. Geist,

> That failure is plainly hurting all aspects of our digital economy. It creates business uncertainty, it undermines consumer adoption of e-commerce, harms innovation, and sends an unmistakable signal that this is simply not a [government] priority.

Do you agree that the government's failure to present a digital economy strategy is negatively impacting the Canadian economy?

Mr. Paul Preston: I did read his article in *The Huffington Post*. I do know some of the words that were written by Mr. Geist.

I think it's a complex set of issues. There's certainly improvement that can be made, but it's a complex set of issues in Canada. We looked at the issue internally. We think there are elements of culture in Canada in how we operate the systems that come into play.

Ms. Hélène LeBlanc: Mr. Preston, do you feel, though, that the government could set the pace, could play a leadership role?

I was mentioning in our previous meeting that it's to align the planet so that everybody will be on the same page, and to just give leadership in making sure that the federal programs are aligned, that business is on board, and that everybody is.... Right now, we seem to see a piecemeal approach—small programs that get cut off, programs that are working well or are becoming well known. We have heard other testimony saying, hey, we didn't know there was this fabulous program, especially for the SMEs, the small and medium-sized businesses, and then the program, boom, is cut off, finished, because sometimes it lacks promotion, and it takes time.

I want your feeling on the leadership role that should be taken to have a strategy, and a long-term strategy, to align everybody alongside partners with business and things like that, that will correspond to business needs, and to have good communication there.

Mr. Paul Preston: I think your last point was very important. It is more about government partnering. I think government needs to set the stage, to set the ecosystem to help business be successful, but ultimately, they need to be the drivers of their own success. Certainly, there are areas for improvement in coordination and communication. A lot of different programs are offered through different government departments, and we hear from SMEs that we talk to that it's very difficult to navigate. Improvements have been made in that regard, and there are those definite winners, like IRAP and some of those programs, that industry speaks very favourably of.

Ms. Hélène LeBlanc: Does the Conference Board have any thought about the spectrum auction that is coming up? Do you feel it is going to help e-commerce and digital adoption for SMEs? Do you think the conditions that are put in the spectrum auction rules will create a favourable condition for that alignment?

● (1700)

Mr. Paul Preston: I haven't read the specifics of the new auction. I was more familiar with the public safety broadband auction from a couple of years ago.

I think if it is done right, and if you can bring down total cost of usage for SMEs—because cost tends to be a big concern for a lot of SMEs, so if you can do anything that brings down cost for them and that lowers complexity and offers them more viable solutions, it would be an improvement.

Ms. Hélène LeBlanc: You mentioned that you are a think tank. We were looking for a report that was related a little to our subject. Has the Conference Board presented any reports regarding a digital strategy and something that would be of value for Canada as far as a digital strategy that could be proposed by the federal government?

Mr. Paul Preston: We had a great report about a year and a half ago that looked at how Canadian SMEs can really access global markets through digital technology. There were certain best practices that came out of that. I can certainly provide the title and a link to the report, if you would like that.

Ms. Hélène LeBlanc: Certainly.

Mr. Paul Preston: One of the biggest things they mention in that report is the need for a Canadian organization, for example, to have a visible online presence that's well respected, so that other countries can look to it and recognize it as a valuable business. You wouldn't just open up your business and say you're going to work globally. You need to have an established, strong brand presence.

That was one of the key findings of that report. We've done other studies on that in the past, but that's the most recent.

Ms. Hélène LeBlanc: I think the committee would be interested in having a link to the report related to that subject, and actually some recommendations regarding a digital strategy. We could start that conservation, since it doesn't seem to be moving yet from the government side, so we would know exactly what the strategy would be for that.

Mr. Collins, you are shipping across the world and so on. How do you organize this logistically using ICT?

Mr. Gary Collins: We use a proprietary system, which we built over the years. It's internal to the company. A number of the original people who founded the business, including Mr. Hardy, had a background in logistics. They actually came from the courier business. In the case of Roger, he had been a contact lens salesperson and had worked in logistics. He saw the two and put them together and said there was a real opportunity to innovate in that sector.

We have our own proprietary system. We have a shipping department that is mostly automated. We work with a variety of shippers globally, including Federal Express, Canada Post, the U.S. Postal Service, and Purolator, right across the sector.

The Chair: Thank you very much, Mr. Collins and Madame LeBlanc.

We now go to Mr. Warawa for seven minutes.

Mr. Mark Warawa: Thank you, Chair.

Thank you to the witnesses for being here. I want to thank the Conference Board of Canada for the work they do and for being non-partisan. I think it's very important that we have that perspective. The government's responsibility is to create an atmosphere in which business can thrive, be prosperous, and create jobs, so focusing on the importance of the Internet and of ICT for small and medium-sized businesses is so important.

First of all, I want to talk to Mr. Collins. You come from one of the most beautiful parts of Canada.

Mr. Gary Collins: I'm from one of ten provinces that are beautiful, yes.

Voices: Oh, oh!

A voice: You're good.

Mr. Gary Collins: Not to mention the three territories.

Mr. Mark Warawa: We come from the same part of the world.

Mr. Gary Collins: I've been there.

Mr. Mark Warawa: You've shared your story with Clearly Contacts.

I started wearing glasses I think when I turned 25, maybe 20. My eyes progressed and the glasses needed to be tweaked and changed into bifocals and then trifocals. Over the years, it has been a challenge to get a set of frames that would fit. I would have my eyes checked and then I would try on different frames. Some of them would be too long along the side, some would be too wide. I have a large bridge on my nose, and to get a frame that would fit, that was on the rack, was very difficult.

When I was told you could order them online, I found it very helpful to be able to find the frame. I put in the parameters of what I'd need with those sizes—the bridge size, the width size—and suddenly those were all the frames that came that would fit on my face and be useful to me. You do not have that when you go to the mall or to your optician or whoever to try to get a pair of glasses. You have a much greater opportunity to choose a set of glasses. That's what I really appreciated.

I did buy a set of glasses and it was quite nice, and there's your commercial.

● (1705)

Mr. Gary Collins: Thank you.

Mr. Mark Warawa: I was very happy.

You are expanding into a global market. We live in the same part of the world, where you have the United States competing in the Vancouver market, and yet the Canadian market does not aggressively go after a larger market south of the border. It's always baffled me why that is not happening.

About eight years ago, a study from the Centre for the Study of Living Standards—I'm sure both of you are aware of that study—highlighted that fact, that the U.S. is moving forward more quickly and adopting these new technologies more quickly than Canada. Why is that? I don't know if you want to refer to that study, if you have your own opinions, but I'm surprised that, as business entrepreneurs, Canadians are not grasping....

Mr. Collins, you've done it yourself, but why are other Canadians not doing what you've done?

Mr. Gary Collins: I've spent time in elected public office and I've spent time in business. I have found it fascinating trying to relate public policy at the board table level in business and trying to relate business to political leaders. I sometimes feel as if I'm translating ancient Greek into Mandarin or something. They have very different environments and different cultures, but both manage risk.

I think when business manages risk, they look at what they have. They're always trying to grow their business, and trying to do that in a profitable way. They look at the risks that are available to them or the risks that are in front of them, and then they determine how to allocate that capital.

In the United States, you can amortize that investment over a much larger market. The U.S. market is immense. It's the single largest market, I guess. The European Community is very large as well. I think that's why U.S. businesses see the upside of that capital investment and that risk-taking to be immense. The downside is you can only go to zero. In Canada, it's often a challenge to grow a business, given our interprovincial non-tariff trade barriers. We sometimes downplay that impact, but it's often very difficult to do business across jurisdictions in Canada.

If I had one thing to advise or to suggest as a public policy initiative.... On the books of 10 provinces, three territories, and the federal government, there are, literally, thousands of pieces of legislation and millions of regulations. The vast majority were drafted and implemented before the Internet existed. Given my time in public office, one of the things I found most advantageous was to make sure that we made it easy for business to take their capital and invest it and minimize their risk. One of the ways we can do that is to make it easier to do business and to modernize our regulations and our legislation.

So I think one of the simplest things—I shouldn't say it's simple, it's very difficult, but one of the biggest things that government could do to advance Internet technology and the risk-taking by entrepreneurs that needs to happen in the economy is to make sure an obstacle is not being created just because we haven't got around to modernizing the legislation and regulations.

Mr. Mark Warawa: Very good.

Mr. Preston, could you comment on that study from the Centre for the Study of Living Standards?

Mr. Paul Preston: Yes. It's interesting why Canada would compare differently to the U.S. Andrew Sharpe and CSLS came out with another report related to that today. I haven't had a chance to read it, but if you look it up, you might find it.

We've speculated that because a lot of development came out of the U.S.—through Silicon Valley and other regions—they had a natural inclination to go that way. We think maybe there's a cultural thing in Canada where we don't adopt ICT as readily. We're a resource economy. We have a sparse, spread population creating those innovation clusters. We just don't have the same scale as the U. S.

We think it could be a combination of any or all of those factors. But certainly over the last three to four years, with the dollar being so strong, we've seen an uptick in machinery and equipment investment by Canadian firms that are buying equipment abroad. A good portion of that is ICT technology. Time will tell what impact that will have.

● (1710)

The Chair: Thank you, Mr. Preston.

Now on to Mr. Regan for seven minutes.

Hon. Geoff Regan: Thank you, Mr. Chair.

I must say, I'm having difficulty letting go of the image of my friend Mr. Warawa visiting an obstetrician.

Voices: Oh, oh!

Hon. Geoff Regan: Especially to get glasses, but that's okay. Just a little fun. He was taking a shot at me earlier, so it's only fair.

Mr. Collins, we've heard that shipping costs can be a barrier in e-commerce. Can you tell us what you've seen in that regard? What are the differences you've seen operating here in Canada versus operating in places like the U.S. and in Sweden in terms of shipping costs?

Mr. Gary Collins: We don't see a dramatic difference. Shipping costs, as a cost of goods for us, are not significant. They're not huge. Certainly they're part of the revenue. We see a very competitive marketplace for that. We receive bids from all the major couriers—I mentioned Canada Post, Purolator, FedEx, and the U.S. Postal Service. And in Europe, they're not dissimilar. In our experience, we find that to be a fairly competitive marketplace. We would obviously like it to be lower, but it's a crucial part of what we do.

We have a 365-day return policy, so if Mr. Warawa didn't like his glasses or, heaven forbid, his wife got tired of them after 11 months and wanted to ship the glasses back—not him....

Voices: Oh, oh!

Hon. Geoff Regan: That's impossible.

Mr. Gary Collins: She could call us and we would send her a shipping label through the Internet, through e-mail, and she could print that and send them right back to us.

So shipping is important to us. We ship over 10,000 packages globally a day. And we're also pretty attractive to the courier businesses because we ship a relatively bulky package that's extremely light. From my background in the aviation business, we love that, having a bulked up product that's very light, because the fuel burn is very low. I think companies that ship larger, heavier product might find shipping costs to be more of an issue for them.

Hon. Geoff Regan: Would you like to talk for a moment about the dangers of counterfeit eye products, in terms of both the role of e-commerce and the spread of them, so to speak, or the distribution of them? And where do most of them originate?

Mr. Gary Collins: Most of the counterfeit or most of the products?

Hon. Geoff Regan: Counterfeit.

Mr. Gary Collins: It's hard to tell where most of the counterfeits might originate. We go to great lengths to have direct relationships with the manufacturers wherever possible and purchase products directly. We do also purchase products from their distributors. But one always has to be mindful of that risk, that somebody is slipping something into the supply chain. We have undertakings by our suppliers, indemnities that they sign. We try to put a lot of onus on them to be accountable for what they produce and what they ship. We also go through an inspection process ourselves, when we first receive goods, to verify, because we just don't trust necessarily that all supply chains globally are a hundred percent risk free.

Where they come from—I think, generally, people believe they come from Asia, particularly China. I think that's probably valid, although I don't have direct evidence of that. But they certainly are out there.

You have to go to great lengths to make sure those products don't make it into the supply chain, and certainly your supply chain. It's a huge risk to our company's reputation if we were ever to supply a product that was not genuine, particularly with regard to contact lenses. It's unlikely that damage is going to be done to somebody as a result of eyeglasses, but certainly with contact lenses—where you actually put those into your eye—one must be very careful of that. We go through inspections with the FDA and Health Canada, etc., to make sure that our facilities are compliant as well.

Hon. Geoff Regan: Thank you.

Mr. Preston, the Conference Board publishes annually *How Canada Performs: A Report Card on Canada*. In the most recent report, this year, Canada received a D on the innovation report card. ICT investment also merited a D grade, and Canada ranked eighth out of 15 peer countries, including countries like the U.S., Sweden, Denmark. Your study also found that Canada has not increased ICT investment over time.

What do these findings actually mean in the context of improving Canada's productivity and growth? Clearly, D grades certainly sound pretty bad on paper, but how do they actually reflect on SMEs throughout the nation? And what role can the government play in improving this grade?

● (1715)

Mr. Paul Preston: The report card does reflect a comparison with our peer OECD countries. While we are improving in some measures, other countries are improving quicker than we are, so our relative grade has stayed as a D rating overall.

There is some real issue there with the ability of our SMEs to adopt ICT and what impact that has on our country. We know that 98% of our businesses are of SME size, so it has a major impact if they're not able to adopt ICT effectively.

I think the government has an important role to play in a couple of ways—creating that ground floor, that ecosystem that encourages ICT adoption, whether through directed programs, such as the couple that I've mentioned, or through also providing a communication and coordination vehicle so that firms know what programs and assistance are available for them to adopt ICT technology.

So I believe improved communication and improved coordination would go a long way.

Hon. Geoff Regan: I'll ask you this, Mr. Preston, and maybe Mr. Collins would like to answer it also. Canadians, of course, are often considered to be risk-averse. This risk aversion is said to have a notable impact on productivity and growth. Do you think this risk aversion can be overcome, and will that be through policies, practices, or other means?

Mr. Paul Preston: It's interesting, because risk aversion—we talk about a culture of risk aversion—is one of the things we plan to spend more time looking at. It does have a real impact. Our estimate is that we make $7,000 less per Canadian as compared with our U.S. counterparts because of our productivity measures. There's a real challenge there on the productivity side.

Mr. Gary Collins: I would only add some of the things that could be done. I talked a little bit about interprovincial trade barriers, etc.

As well, Canada's capital markets are not as developed as they are in perhaps other places, I think particularly the U.S. I don't know if we're ever going to match that. Having a more fully developed capital market, having regulations that are up to date with the evolution of technology, I think would be extremely helpful.

People take risks when they see an advantage, when they see an opportunity. I think making it easier to have the benefit arrive—as opposed to having government be part of the risk that the business has to evaluate, or government regulations legislation—would be helpful.

The Chair: Thank you very much, Mr. Collins and Mr. Regan.

I'll just remind members that I'm working off the clock that's on our BlackBerry. It's actually two minutes faster than the clock that's on the wall here—and course it's different from that clock too.

Mr. Braid, for five minutes.

Mr. Peter Braid: Thank you, Mr. Chair.

Mr. Collins, with respect to your customers and your sales, I'm just curious to know what percentage of your sales are in Canada and what percentage are exports.

Mr. Gary Collins: Currently, probably a third of our sales are in Canada. It's certainly our largest market. The company started in Vancouver, so it has greater market penetration there.

The rest of the sales would be export sales. The largest markets are in Europe, particularly northern Europe, Scandinavia. The United States is growing extremely quickly. Australia and New Zealand are also big and very fast-growing markets for us. We are also in Japan. I think we're the number two provider of contact lenses in Japan. We've just started marketing very lightly into Brazil.

It might be interesting for the committee to know that when we do research on our customers, the largest market penetration per capita is actually in rural and remote parts of the country. We don't receive a huge number of customers from there, but as a percentage of the population, it's by far the highest in the north or in rural areas, where access to cost-effective eye care is very expensive, or not in existence in some communities.

They all get deliveries from Canada Post, but it may be very difficult to go down and get a great product at a great price.

● (1720)

Mr. Peter Braid: The sales are all Internet-based.

Mr. Gary Collins: Yes.

Mr. Peter Braid: How do you drive customers to your website? How do they become aware that the company and the website exist?

Mr. Gary Collins: We do have five bricks-and-mortar stores in Sweden. We've just recently opened our very first store in Canada, an actual footprint store on Robson street in Vancouver. We'll probably do a little bit of that across the country and in various markets, but it will be a small portion of what we do.

More than 90% of all our marketing and sales spend is online. We do that through search engine optimization, word search, display adds, and retargeting affiliates. We do a lot of e-mail. We have a customer base of about 4.4 million. We also have 2 million Facebook fans, which is a very large number. A million of those are in the U.S.

Mr. Peter Braid: That's Justin Bieber territory.

Mr. Gary Collins: They're not my fans, I might say. They're more the product's fans.

We've actually found social media to be a growing opportunity for us to market. As a channel, you're able, in a very precise way, to focus offers to people, particularly through Facebook. People choose to put an awful lot of information on Facebook about themselves, and as part of the marketing process you're able to target special offers to people who are looking for that kind of a product. We found that to be a very successful marketing channel as well. A little bit more than 90% of our marketing spend is online.

Mr. Peter Braid: It sounds like you have very dedicated social media marketing strategies, not just Internet, but social media.

Mr. Gary Collins: Absolutely. What we're finding more and more is that Internet use is shifting to mobile, on phones, iPads, iPhones, and BlackBerry, for example. More and more customers are searching on those, using these devices to go online, particularly in the U.S. market, where penetration of mobile is much higher even than in Canada in terms of people searching, as well as in some other places in the world. In some of the developing markets, mobile is virtually all there is. It is a different platform, as opposed to the laptop or your main computer on your desk. That presents a whole array of different challenges on how to market to people. It's a small screen. It's different. That marketing process is evolving.

We've also been very successful as a Canadian company in attracting world-class talent. We've recruited a number of senior employees from large U.S. Internet e-commerce businesses, such as Zappos. The gentleman who runs our IT has been at Oracle and Netflix. He ran their IT.

We have not found it easy, but we've been able to attract global talent to our business. We think we have a world-class marketing team based in Vancouver for our operation.

The Chair: About 10 more seconds.

Mr. Peter Braid: Do you have a corporate philanthropic program for people in the developing world?

Mr. Gary Collins: Yes, we do, and I talked a little bit in my presentation about one of the projects we did in Kenya recently with the Me to We organization and the Save the Children foundation. We expect this will expand significantly in the coming years, as well as in other places across the world, including North America.

The Chair: Thank you very much, Mr. Braid and Mr. Collins.

I feel almost a little guilty that I may have stolen Mr. Harris's thunder. Before we start the clock, we're going to allow Mr. Harris to make the comment that he needs to make and go ahead with his question.

Mr. Dan Harris: I did not at all feel like you were stealing my thunder. I felt like I had finally gotten through what should be a part of every single meeting.

As was mentioned before, if there's anything that you weren't able to share with the committee that you feel would be useful for the study, please send it to the clerk in both official languages, if that's possible. We'll certainly take that into consideration.

Thank you very much, Mr. Chair. We can start my time now.

Mr. Preston, I actually want to follow up on the questions that Ms. Gallant was raising earlier about cloud computing and the lack of cloud computing in Canada. As you mentioned, in certain key areas where national security might be a consideration, do you think that in establishing a set of guidelines and in terms of building cloud computing in Canada it should be one of the central components of a digital economy strategy?

● (1725)

Mr. Paul Preston: I actually do, yes. I think it's important for the providers of cloud infrastructures to understand what's expected—that we take protection of information and of privacy very seriously in Canada. I think that should indeed be a part of the strategy, yes.

Mr. Dan Harris: Excellent.

In terms of the availability of cloud computing and businesses adopting more ICT and getting online, do you believe that the limitations in bandwidth that both consumers and businesses have is a barrier to that?

Mr. Paul Preston: I think it will become increasingly a barrier if we don't find innovative ways to provide more bandwidth. You can look at some trending, say, 50 years from now, or even five years from now, and see that we're not going to be able to afford the bandwidth we need. But we've been very good at innovating within the telco space. We need to come up with innovative solutions.

It could become a major barrier for us, but I do have confidence that we will be able to address that challenge.

Mr. Dan Harris: We certainly have an opportunity now to deal with that before it actually does become a barrier—to actually be proactive rather than have to react after it's become a problem.

Thank you very much for your answers.

Mr. Collins, you were speaking earlier about modernization regulations. When considering a digital economy strategy, modernizing the regulations should certainly be a component of that. You mentioned that for you, as a business, the shipping costs aren't really a big barrier. When the CFIB came here, they said that shipping costs are a great barrier for small and medium enterprises in particular because they don't have the kind of volume you have. Have you experienced that in dealing with any of your suppliers, perhaps?

Mr. Gary Collins: I could ask my suppliers and get back to you. I don't know to what extent it's a barrier to them. I know for us, as I said, we ship very high volumes in very light packages. I believe we do get very good rates. I think others in the manufacturing sector, where they're shipping heavy items or single units, where they're not able to get the scale, would certainly find it more onerous for them. But I can't really speak for them.

Mr. Dan Harris: You mentioned that the logistics software being used is proprietary. If you don't mind my asking, and you can provide just a rough estimate, roughly how much had to be invested to actually create the logistics system that, it would seem, serves your needs very well?

Mr. Gary Collins: It does serve our needs very well. We have—I'm trying to think of the numbers right now in our IT department—certainly north of 25 people who work full-time on not just our logistics but our supply chain, our business information systems, so that the managers can get information back in real time. Being online, it's critical that we get a feedback loop that's virtually instantaneous from our customers. We spend a great deal of time on that.

So the capital expense wouldn't have been significant. It's business information, and the laboratory logistics are a Microsoft technologies platform. The capital costs wouldn't have been as high as the ongoing developmental costs.

I couldn't give you an estimate, but I can try to get that back to you, if you like.

Mr. Dan Harris: That would be great, just to give us context. But certainly keeping 25 people employed shows there is a great cost involved that of course small businesses would have trouble leveraging.

Were you able to make use of government programs to help offset some of those high costs?

Mr. Gary Collins: We have a very sophisticated finance department as well, and a CFO, who is not here with me. I'm sure that through the various benefits that are out there, we have accessed over the years as many of them as possible. I think most businesses try to. Whether there were tax credits or investments, etc., I'm sure we've accessed all of those. I couldn't speak for any specific ones, though.

The Chair: Thank you very much, Mr. Collins, Mr. Harris, and Mr. Preston.

Hon. Mike Lake: I have a quick point of order.

It's more a point of clarification. We were wondering at this end of the table if, when Mr. Warawa gets his glasses from the obstetrician, it includes delivery.

Voices: Oh, oh!

● (1730)

The Chair: At this point I'm going to say thank you very much for your testimony. We appreciate it greatly.

The meeting is adjourned.