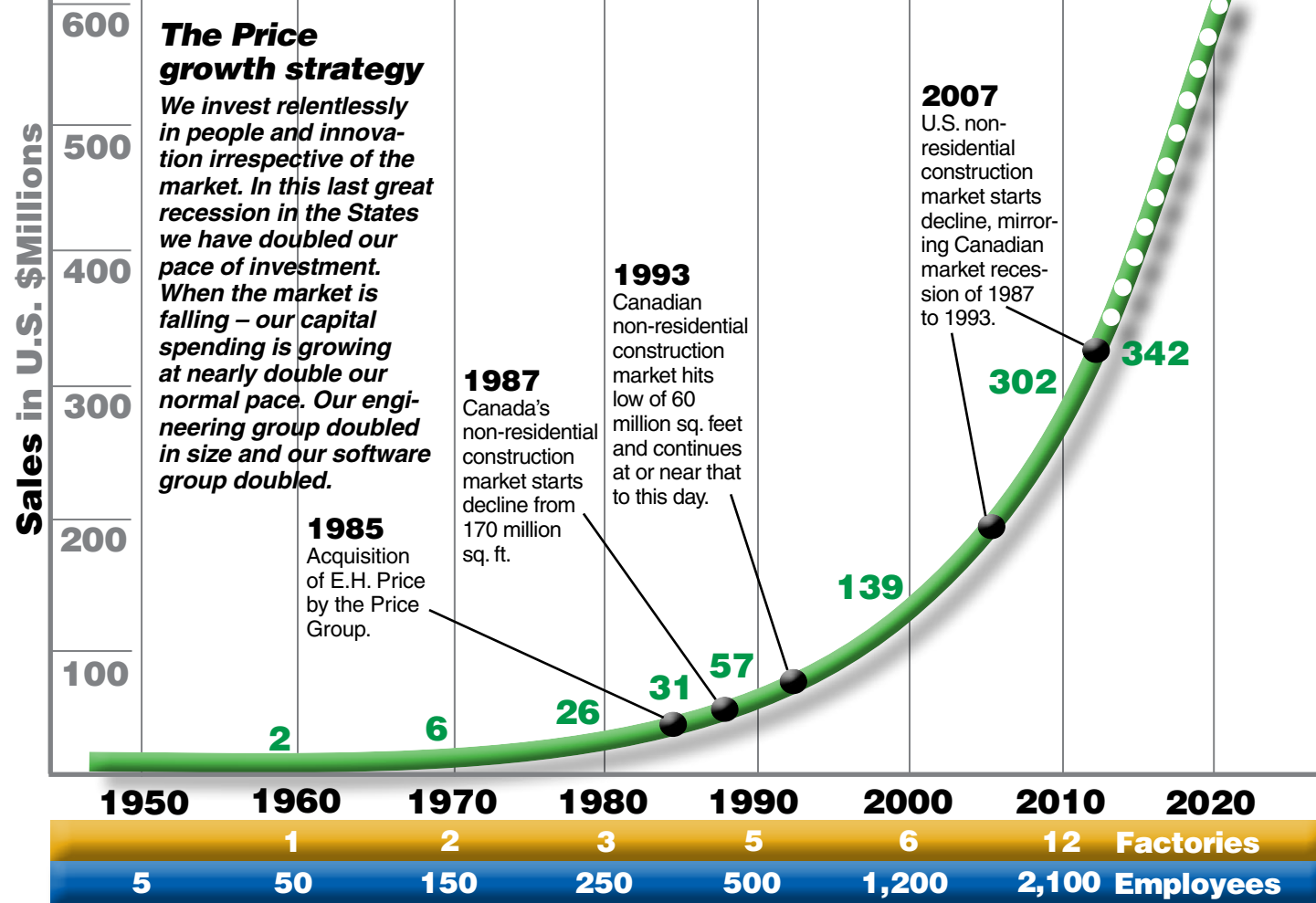


RELENTLESS INNOVATION



The Price growth strategy
We invest relentlessly in people and innovation irrespective of the market. In this last great recession in the States we have doubled our pace of investment. When the market is falling – our capital spending is growing at nearly double our normal pace. Our engineering group doubled in size and our software group doubled.

1985
 Acquisition of E.H. Price by the Price Group.

1987
 Canada's non-residential construction market starts decline from 170 million sq. ft.

1993
 Canadian non-residential construction market hits low of 60 million sq. feet and continues at or near that to this day.

2007
 U.S. non-residential construction market starts decline, mirroring Canadian market recession of 1987 to 1993.

While most companies were chasing lower cost production around the world, outsourcing for cheap labour and creating extended supply chains, the Price Group was following a different course. They were finding niche markets so they could keep manufacturing and research and development into new products in the higher cost market of Winnipeg. They were focused on learning new skills, protecting R&D staff, weathering two major recessions, expanding and building factories in the U.S. and keeping virtually all skills and production in house. Gerry Price, their CEO and sole owner, is justifiably proud

of the Price Group's growth from a small sales company to a North American leader in the non-residential heating, ventilation and air conditioning market, with over 340 million dollars in sales and over 2100 employees at 12 factories across North America.

Trial by fire

In 1987, two years after Gerry Price acquired 100% of the E.H. Price Group, the Canadian non-residential construction business started a five year decline, decreasing by two-thirds to bottom out at a 60 year low, where it has, in the main, remained.

The memory of those early years is vivid for Price: "We lost 110 million square feet out of our market in a five year period. We were piling up losses; in a year or two we would have wiped out our retained earnings and would have been closed down." They reacted by successfully restraining costs: trimming salaries by 10% to 25%. "We rolled back our collective agreements by at least 10% by convincing the union – and that wasn't easy," he says. What was less conventional was that he protected the R&D side, "because that's the intellectual property that gives us a future".

The lessons in those five years in Canada would prove invaluable to their experience in the U.S. recession. From 2007 to 2012, Price notes that the U.S. non-residential market shrank by that same two-thirds ratio. So how does a company stay in business when market opportunity vanishes that fast? The answer is counter-intuitive: "During that five years (2007 to 2012) we have doubled our pace of investment." What is interesting about the story of the Price Group is how they persevered and found a way to not just stay in business, but grow. The Price story is one that flouts much of the conventional wisdom of the business schools and pundits.

Investment in innovation

At corporate headquarters in Winnipeg, Price has built research and test labs to enter new markets, created an engineering group of over 60 and another 60 in software development. For Price this is key to his long-term growth strategy. "If we were publicly traded, that group would be released and the organization would be operated to drive margin for shareholder s' advantage - but then it wouldn't have the intellectual wherewithal to grow." His catalogue of products expands by over 300 pages a year and his sales numbers (see chart) tell a tale many would be wise to heed: "This core of people is our innovation engine and it drives a massive rollout of products and software."

Bucking the outsourcing trend

For much of the past ten to twenty years, North American businesses have been outsourcing their business. In the United States, companies famously chose to move production to lower cost jurisdictions in Asia and Latin America. While that trend is now reversing, as companies seek ways to reduce their supply chain costs, Price has no such issues. Price not only found niche product higher value markets where production in

Canada made business sense, he has pursued a philosophy of doing it themselves to get it right. "We don't practice the prevailing wisdom of narrowing your company focus to what would be deemed to consider your core knitting skills.... We instead believe in learning new stitches and broadening our knitting skills into every conceivable stitch known to man". In fact, as a Canadian company which has moved more commodity-like manufacturing to the lower cost American market, the Price Group might just serve as a model for the burgeoning reshoring/right-shoring movement in the United States.

Poster company for the niche market, value strategy

While the Price Group has bucked conventional wisdom by outsourcing almost nothing, they are proof that a niche market strategy can work. When they expanded from more basic air distribution within buildings into applications such as heating and cooling hospital isolation rooms and high-tech laboratory environments, they built automated research test rooms and acquired new skills to design and manufacture software and electronics.

If there is another, more conventional wisdom the Price Group follows, it is early adoption of lean techniques and practices. Starting on the shop floor in the 1990's, they have extended lean throughout the company, focusing on driving waste out of the R&D process to design and test new products for the marketplace faster. While they may not have built a supply chain, or chased lower labour costs around the globe, they are a poster company for the pursuit of niche markets with higher value.

"Our philosophy is to find innovation and production techniques that permit you to be competitive building domestically," says Price. They now design and build their own software for architects and engineers to design HVAC

systems, they design and manufacture their own circuit boards for control systems. Having carefully protected and grown their engineering and machining capabilities, they would rather build their own machines than send that work out of the shop. What some would call an old school insistence on doing it yourself has enabled Price to retain complete control over costs, intellectual property and lead times. "We service the heck out of our customers, with near 100% on-time delivery and incredibly short lead times," he says, proudly, as any good CEO would. It's the next line that is revealing however: "Why wouldn't we prevail?" It is clear that for Gerry Price, it is puzzling why any business leader would have wanted to chase lower labour costs, move business jurisdictions or endure a percentage of customer churn. Iconoclastic, perhaps, but the story of growth at Price says the strategy is viable – they have survived two recessions in their core market, while expanding their R&D capabilities, building new factories and diversifying into related markets (e.g. aluminum extrusion and windows for transit buses).

Passion for learning new skills is key

"If we think we can master it we will", Price says, "If we can't go into an industry or a business and learn it as well as anyone else and then advance it, we won't go there". The latest niche they are focused on is heating and cooling systems for laboratories, for which they built a full-scale testing room at their facilities in Winnipeg. This is the intellectual property he protected in 1987 and continued to build through 2008 to 2012. "The products that we used to build here that were low-margin more commodity-like have been moved to the States out of Winnipeg. All we build here are specific niche products that are viable when built here and sold in the U.S."