

# WINTER IS COMING

Strategies to confidently  
take on the coming storm

October 2020

COVID-19 first reared its ugly head to Western Canada's business community in March. At the time, there were a range of reactions and opinions as to its potential impact. Many predicted a V-shaped recession that would play out over 6 months, and some foresaw more of a U-shape over the course of a year. However, in the early days of the pandemic, few expected significant market challenges to last beyond a year with full recovery to pre-pandemic levels perhaps not being achieved until 2023.

And while this story has yet to fully play out, **the coming economic winter threatens to be more severe than many first expected.** Difficult days lie ahead and many businesses, with a natural tendency to lean on best case scenarios, are underprepared and clinging to unrealistic expectations.

The challenges in front of business, particularly in Alberta, should not be understated. Depressed energy markets, an increasingly significant second wave of COVID-19 this winter, high unemployment and consumer debt, and reductions to wage subsidy and other government pandemic support programs will all create icy roads for business. Fully understanding, accepting, and preparing for the coming storm will be important for businesses to first survive, and then thrive on the other side.

*How will you ensure you are a first mover when the storm eventually subsides?*

*Is your business set up to navigate the coming economic winter storm?*

**However, there are no market conditions so difficult as to preclude opportunity.** Business will need to be nimble and bold to navigate the downturn, to identify pockets of growth, and to prepare to take market share from struggling competitors as the economy eventually emerges from what is likely to be a long winter's nap.



# Current Forecast: Dark skies and frigid expectations

To succeed, it is best to start with a clear understanding of the current reality. COVID-19 has created some unusual paradoxes:

- An increase in unemployment or reduced working hours for many, but higher disposable income for others since COVID restrictions have limited their normal spending patterns.
- Lower revenues for most businesses, but some have been able to cut expenses and leverage government support, mainly through the Canada Emergency Wage Subsidy (CEWS), to maintain pre-COVID levels of profitability.
- Despite a significant drop initially, retail and consumer spending has surprisingly returned to pre-shutdown levels.

**So, there is reason to be optimistic, right? Not so fast.** Much of the above is driven by artificial stimulus like government funding or bored consumers who are stuck at home and unable to travel abroad. There are still many structural concerns in our market and reasons to be bearish about the coming months.



## Declines in government support

CEWS was providing qualifying businesses with up to 75% of wages to a maximum of \$847 per employee per week through August, but this percentage is slowly decreasing. It is likely that additional layoffs will result as businesses wean themselves off CEWS. Other government programs will also need to be scaled back as we move into 2021.

## Second wave of COVID-19

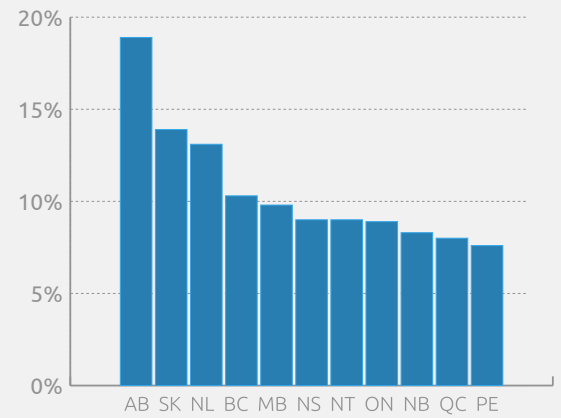
COVID is again on an upswing, with an increasing number of jurisdictions around the world bringing back restrictions on some businesses and sectors. Even if Alberta doesn't impose restrictions locally, consumer confidence wanes with each new announcement and our exporting companies face reduced access to foreign markets. While some business can be done remotely, a reduction in organic local networking and a virtual stop in cross-border travel over the past six months has hindered long-term business development efforts and is only now starting to result in reduced revenue pipelines for businesses.



## Unemployment and consumer debt

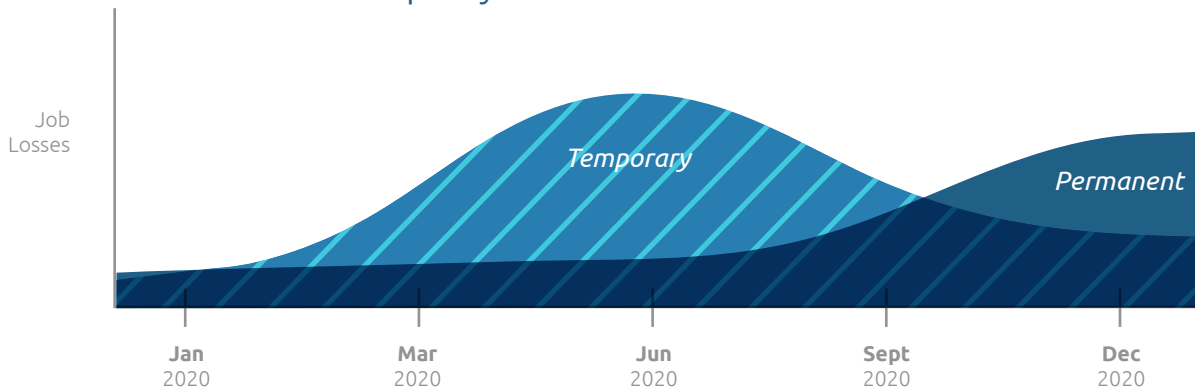
The underlying metrics give pause for concern. Many consumers took advantage of offers to defer payments on mortgages, credit cards, utilities, and other recurring payments. According to CMHC, 18.9% of Albertans deferred their mortgage payments, more than 5% higher than the second highest province and almost double the national average. Unemployment as of October 2020 was 11.7% in Alberta, again higher than the 9% national average. In addition, most of the initial unemployment in March and April, and much of the so-called subsequent job recovery over the summer, occurred in part-time, lower wage-earning retail and service sector jobs. More recent layoffs are impacting permanent, professional positions in all industries, which will result in more widespread and severe impacts to the overall economy. This does not bode well for short-term economic growth.

### Mortgage Deferrals



Source: Canada Mortgage and Housing Corporation

## Temporary Versus Permanent Job Losses



## Depressed energy markets

Combine the pandemic with the ongoing struggles in the energy sector, and Alberta is in for an extreme cold snap. There are no signs of a recovery in resource commodity prices and certainly no prospects for new major oil and gas capital- and labour-intensive projects that drove much of Alberta's economic growth from 2000 to 2015.



## Alberta's business outlook

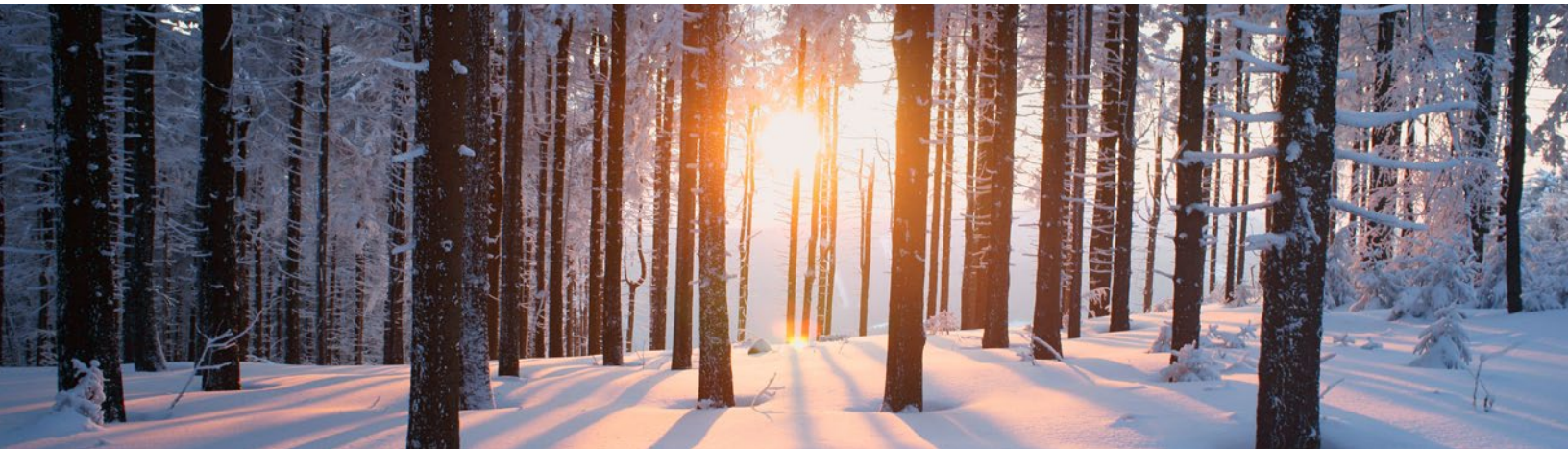
Unsurprisingly, Alberta's entrepreneurs and business leaders are souring on their short-term prospects. The [Business Council of Alberta's](#) recent Alberta Business Expectations Survey<sup>1</sup> indicates that the recovery in Alberta is likely to be longer and slower than most would like. Of primary concern:

**47%** of businesses expect their employment levels to drop versus only 26% who expect them to rise

**53%** expect to invest less in machinery and equipment compared to only 21% who expect to spend more

**62%** of businesses report their forward-looking indicators like order books, advance bookings, and sales inquiries have deteriorated from a year ago

A harsh economic winter is coming. Most businesses managed the first six months of the pandemic but are now facing an extended downturn with tightening balance sheets, shrinking profit margins, and declining confidence. Additional layoffs, insolvencies, and credit restrictions should be expected, and businesses need to prepare for the storm clouds ahead to get darker before any sustainable recovery will occur.



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# Navigating the storm

The coming months will test even the most experienced business leader. However, there are still opportunities in down markets and several considerations to help navigate the winter storm.



## Foster a leader's mindset

Courage and discipline are required to help your organization make its way through near whiteout conditions. Leaders need to embrace uncertainty, focus on their response to adverse circumstances (rather than the circumstances themselves), and show up for their colleagues, their customers, and their community in a way that inspires them to bring their best. Even the most strategic initiatives are sure to fail if the leader fails to lead.

## Seek growth

Growth will be elusive this winter, but there are always opportunities. Don't let the cold limit your potential. Work alongside your team to explore each quadrant of the matrix and determine the best strategy for your business.

- 1. Start with opportunities to grow business from existing customers and existing products/services.** Consider tactics to position your offering differently given current market conditions, to experiment with different pricing strategies, or to reduce the cost of your offering in the market by leveraging government support through the Canada-Alberta Job Grant or the many Western Economic Diversification loan programs.
- 2. Second, pursue opportunities to expand your current product or service offering to existing customers.** It is easier to introduce new offerings to established and trusted relationships than it is to pursue new markets. Position and trial any short-term pivots to your best customers first.
- 3. Third, identify new markets for your existing products and services.** This could be geographic expansion or new industry verticals. You are best to follow the money in your current customers' supply chain to access new segments. Ask your customer to introduce you to their customers or to their suppliers. Target sectors that are growing, such as technology, healthcare, or home improvement.
- 4. Finally, pursue new business opportunities only if you have maximized opportunities in the first three quadrants.** New business ideas can lead to significant growth opportunities, but they typically take more resources and time than expected to capitalize on them.



## Don't let your brand go dark

Downturns inevitably drive most companies to cut costs. Marketing and advertising are usually the first to get chopped. These are understandable reactions, but often counterproductive. The most recent comparison is the 2008 financial crisis. Many companies scaled back their marketing spend, seeking to stay lean and ride out the storm. However, the brands that switched off in response to the economic crisis took up to five years longer to recover post downturn compared to those who continued to stay active and engage their markets<sup>2</sup>. Leverage social media, thought leadership, connections through industry associations, and other relevant partnerships to maintain a strong brand presence during COVID and the coming winter.





## Strengthen partnerships with centres of influence

Centres of influence (COIs) are people, organizations, associations, events, media, and other platforms that are both trusted and leveraged by a customer during the decision-making process. Identifying the COIs for your market and building partnerships with them can be an effective strategy to drive new growth. Collaborating with COIs on content, events, sponsorships, social media, and cross-pollination of your customers can better engage your target market in a more strategic, thoughtful, and persuasive manner.

## Invest in the long game with training, tools, and technology

The current economic slowdown is an opportunity to invest in the process efficiencies and people development that are difficult to pursue when companies are running at maximum capacity. If your business is playing the long game, and most should be, the coming months are an excellent opportunity to invest in training, update proposals, enhance CRM usage, experiment with new technologies to support your operations, and implement improved internal systems and processes.

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# When spring comes, will you be ready?

The road ahead will be difficult, but businesses who stay the course, invest strategically, and prepare for growth will be well positioned. Many businesses will exit this downturn under duress and there will be opportunity for those who are primed to seize their market share. To do so, you need to be ready to hit the ground running.

Much like runners at the starting line for a race, businesses who have done their warm-up, tied their shoes, and visualized the race will be positioned to take the lead when the gun goes off. If you hold off on preparing until there is clear evidence that the market has recovered, you will be too late. Only companies ready to move quickly will benefit from and take share from competitors who find themselves stuck in the lull that most companies typically experience coming out of a recession.

Winter in Alberta can be long and cold. However, the sun often shines, and spring inevitably blooms. Prepare yourself for a challenging economic winter and start to lay the groundwork for your future success by making the best use of the months ahead.

## About Incite



Incite is a strategy advisory firm that works with to address challenges and capitalize on opportunities related to growth, post-merger integration, strategic communications, and business planning. To learn more, please visit [incitestrategy.ca](http://incitestrategy.ca)

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