

Business Insights 2011: On-the-ground in Alberta

Highlights from the Business Insights® Survey of Canadian Private Companies 2011

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The 2011 Business Insights® Survey reveals that the majority of Canadian private companies are staring global volatility in the face, standing strong and planning to grow in the coming year. This confidence comes from having survived the recession by developing key strategies that allowed them to navigate through hard economic cycles. These strategies were underscored by a strong focus on improving efficiencies and maintaining a robust balance sheet. This year's respondents also learned the importance of retaining key talent through tough times by using innovative, forward-thinking, and often non-monetary HR strategies.

As the Canadian economy picked up, rather than go back to pre-recession ways, the majority of this year's respondents have continued persevering in improving internal efficiencies in order to ride the economic roller coaster indicative of the new norm of uncertainty.

In fact, 86% of respondents cited operational improvements as a key driver of their innovation strategy. And almost 60% of respondents are leveraging their technology investments to make their business processes more efficient/effective.

What's more, they are working closely with customers and suppliers to innovate. They are

listening and taking action. Critically important to this year's respondents is the ability to manage costs within their supply chain, with 50% focused on reducing those costs.

But this year's results show Canada's private companies are taking it one step further. They are being proactive in seizing the opportunities in this highly competitive global environment by embracing innovation, new technologies, including leading-edge mobile and social media, and new markets. In fact, 68% of this year's respondents are either in or looking to grow in new, emerging markets.



On-the-ground observations: Alberta

How do you grow when traditional markets are shrinking, the dollar is strong, you are facing a labour crunch, your largest trading partner and the world's biggest economy, the US, is struggling and players from around the world are bringing competition to new heights? These are the challenges Alberta's private companies have faced in the past year and continue to face today. Ian Gunn, Alberta Leader, Private Company Services, PwC, has been working with Alberta's private companies day-in and day-out helping them meet those challenges and grow.

Here, he shares some of his on-the-ground observations:

Here we grow again

Compared to all other regions surveyed, Alberta is brimming with optimism. More than twice as many respondents from the province indicated that business will get a lot better over the next 12 months compared to Ontario, Quebec and BC.

That's largely because while other regions face the continued challenge of economic uncertainty in the months and years to come, overall, the economic odds for oil and gas-rich Alberta are looking strong. According to a recent Canadian Energy Research Institute forecast, Canada's oil sands will give more than a \$2-trillion boost to the economy and create more than 900,000 jobs in the next two-and-a-half decades.

Not surprisingly, Alberta's respondents to this year's survey were significantly more likely to plan on achieving growth by exploiting a buoyant economy than those of the other regions (47% vs. BC at 13%, Ontario at 14% and Quebec at 10%).

Growing with the lessons from the bust

What no survey can ever really show is all the daily sweat and effort that goes on behind the scenes. That's something that only the businesses themselves and their advisors such as Gunn are able to witness. "With all the optimism arising from the new growth, Alberta private companies are now well-positioned to take advantage of the good times. They have worked hard to get here, to be successful and to continue to be successful," says Gunn. "There's been a lot of investment made by businesses to get to where they are."

But they are not resting on their laurels. Alberta's respondents are more likely to be focused on increasing the efficiencies in their business processes than respondents from other parts of the country. And they're focused on aggressive growth, not just to take advantage of the surge in economic growth, but also to be prepared for the next downturn. Of all the regions surveyed, Alberta respondents were the most likely to say they were planning on achieving growth through expanded operations. This supports a recent development Gunn has noted on the ground. "There's a combination of two things going on: one is to make themselves a bit larger so they can withstand another economic downturn. And second, they want good people, so they're out there looking for companies to acquire," says Gunn.

The return of labour shortages

Once again, Albertan companies are facing a pronounced labour shortage. But this time around, they are tackling the issue strategically and innovatively, says Gunn. In fact, prior to the recession, most saw the labour issue simply in terms of shortages. Post recession, they recognize it as a more complex balancing act, remembering quite well the challenges of being hit by a sudden boom-to-bust flip as occurred in 2008. "We're seeing our clients looking for ways to be innovative in their operations, to streamline their processes and mitigate the need for more employees," says Gunn. "Whereas in the past, if they'd received a big order and they might have needed 100 employees, they would have gone out and hired 100, today, they want to figure out a way they can do that with 50."

Rather than head counts, Alberta private companies are focused on making sure they hire the right people and they're looking for innovative ways to attract and retain these. Of all the regions surveyed, Alberta respondents were the most likely to recruit and attempt to retain older workers (58%), relative to those in Ontario (34%) and Quebec (35%).

"What I'm seeing is that they're being very flexible as to where their workers will be," says Gunn. "They're saying, you might live in Vancouver, Sudbury, Montreal, we'll hire you, fly you here to work for the week and fly you home for the weekend, and we'll cover

the costs. They're also being very flexible in work/life balance and looking to find ways to provide that. And in cases where the work can be done remotely, they're investing in mobile technology."

Alberta is going global—at home

Albertan companies are less likely to be looking at expanding to foreign markets than their counterparts across the country—but that's more indicative of the primary industries in the province than it is of the companies' lack of will for global diversification. The reality is that Alberta's natural resources have brought globalization to its doorstep—and often eagerly knocking at its front door. "There is a huge amount of international investment happening here," says Gunn. "Many businesses are being bought up. There's a lot from Asia—China, in particular—and that investment stream is pretty strong. From a private company standpoint, some of them are not big enough yet to be on the radar of the international companies at this stage. The companies most likely to be acquired by foreign companies are large public companies. On the other hand, this does create an opportunity for some private companies. For example, we have seen some interest from international companies that were not able to buy a major public company because it's too big, and so are now looking at getting a foothold in Alberta by striking a deal with a private company."



Gunn has also observed a new shift among companies that service the oil and gas sectors: they're exploring opportunities to expand to overseas markets. "It's still early days," says Gunn, "but some are definitely looking into these opportunities."

Within this group in particular, there's also a big push for innovation to develop technologies and processes that will help the big oil and gas companies improve their efficiencies and ability to extract resources more effectively, and with less environmental impact.

Going forward

Alberta's private companies have worked on their agility to deal with the uncertainties of cycles—both larger economic ones and those within their own specific sectors. "There is one possible uncertainty, that companies worry about but can't really prepare for—and that's the threat of governments seeing the potential for far more revenue for themselves in natural resources industries than they see in other sectors," says Gunn. "The companies that

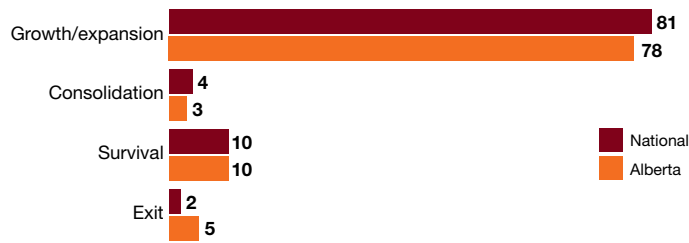
have built the oil and gas industries in Alberta have over the years taken risks and invested heavily to do so. This is something that sometimes gets lost on people. I remember reading about the issues around the National Energy Program when it hit the Alberta economy back in the 1980s. The government basically came in and said it wanted a share in oil and gas ventures for little or no investment risk, without really giving much to those who had put money at risk to develop these processes and projects. This came up again last year where there was some noise about the federal government looking at Alberta in a different light and there was concern that it was going to happen again. I heard the comment then that while Alberta's entrepreneurial spirit hasn't been beat up yet, it sure takes a kicking when things like this are discussed."

For now, however, Albertan entrepreneurship is kicking up a storm with optimism, a focus on improving its strength and resilience through perpetual improvement in efficiencies and innovation, leveraging technology, gaining market share—and keeping a keen eye on robust growth.

Selected statistics for Alberta

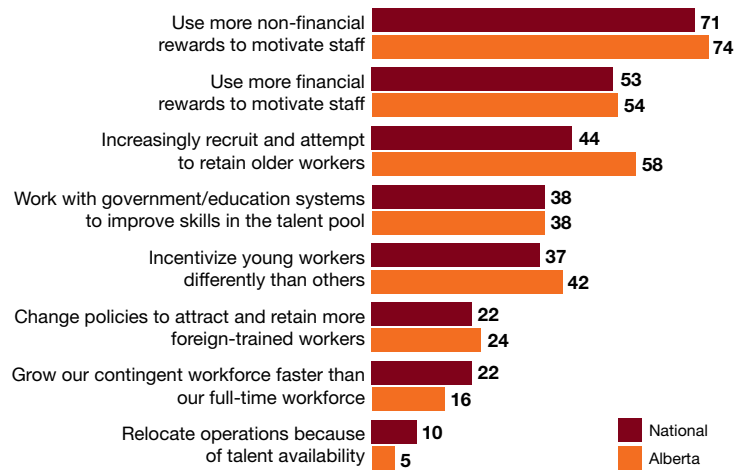
In the next 12 months, which one of the following strategies is your company striving for?

Percentage of respondents



Access to and retention of key talent is critically important for sustaining growth over the long-term. Do you plan to change your people strategy in the following ways over the next 12 months?

Percentage of respondents



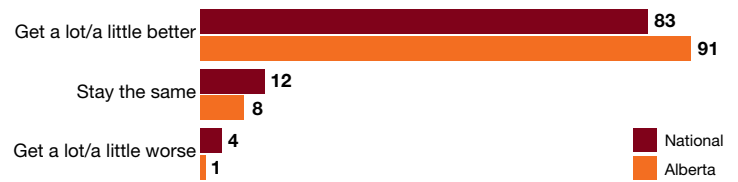
How do you plan to achieve growth?

Percentage of respondents

	National	Alberta
Improved sales and marketing	62	69
Market share gain	58	72
Expanded operations	51	71
Improved internal systems	46	52
Developing new products	44	36
Strategic partnerships	37	36
Acquisitions	36	41
Entering new domestic market(s)	29	35
Buoyant economy	20	47
Entering new foreign market(s)	19	14
Mergers	11	10
Decreasing competition	6	5

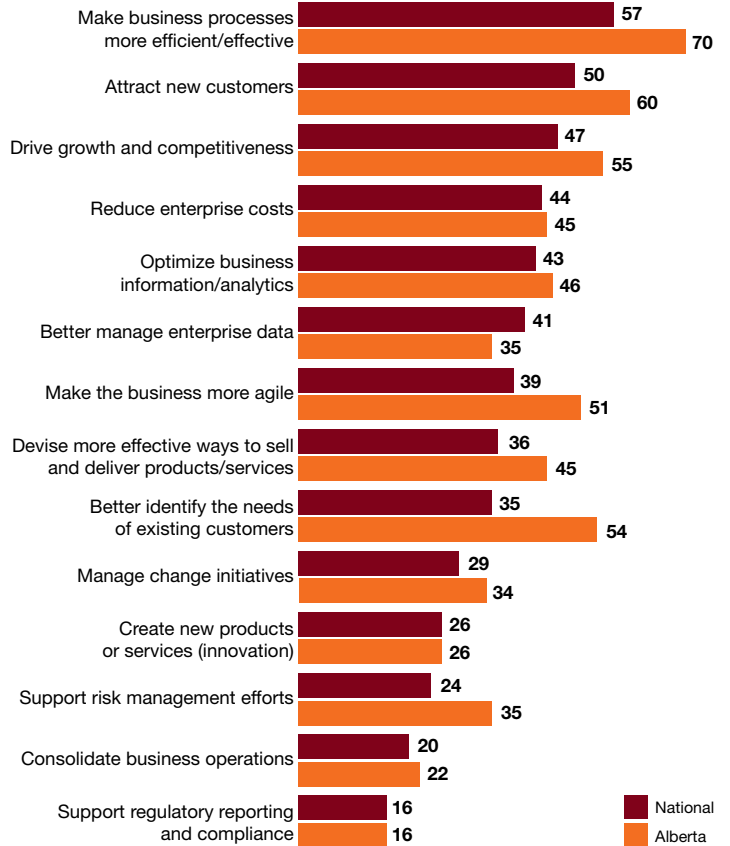
Compared to the present situation, how do you expect your business to develop over the next 12 months? Will it ...?

Percentage of respondents



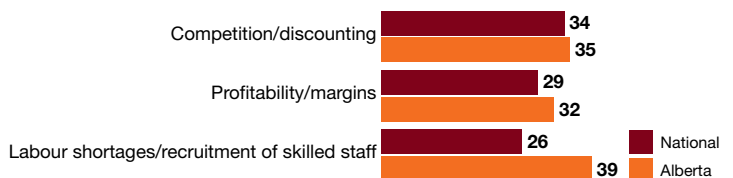
Which of the following objectives is your business aiming to achieve by leveraging its technology investments over the next 12 months?

Percentage of respondents



What are the top three issues that will influence your company over the next year?

Percentage of respondents



* Statistics presented for Alberta are based upon a sample size of 74 respondents.

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