

ATB BUSINESS BEAT:

The pulse on business in Alberta

ATB Business™

Volume 20, January 2018

Are Alberta businesses growing despite the economic downturn?

While Alberta may be emerging from recession, it will likely take a couple of years before the province experiences a full economic recovery. In light of this slow return to growth, we decided to take an in-depth look into how Alberta small and mid-sized (SMEs) businesses are approaching business growth and viability in a slow-moving economy.

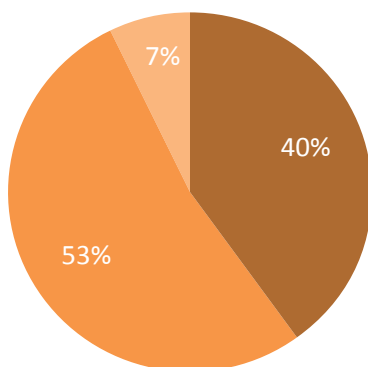
While SMEs may be excited to see some consumer confidence return after two rough years, optimism surrounding faster growth is being tempered by increasing costs and other challenges amid Alberta's recovery.



RESILIENCY IN THE FACE OF DOWNTURN

Seven of ten (71 per cent) of small to mid-sized businesses stated they were negatively impacted by the economic downturn. Of those, almost all (93 per cent) are still feeling the past recession's effects. While this is a stark reminder that many continue to battle economic headwinds, 60 per cent of SMEs claim they have either recovered or are on the road to recovery. This speaks to the resilience of Albertans. Throughout the last two years, the province's entrepreneurs have had to remain innovative and agile, while working harder and smarter than ever before.

"Which of the following best describes the current status of your business overall as a result of the economic downturn?"



- My business continues to be negatively impacted
- My business continues to be negatively impacted but has begun to recover
- My business was negatively impacted, but has recovered

// THE KIND OF BUSINESS I AM IN, IF I WANT TO GROW I HAVE TO MAKE A MILLION PHONE CALLS A DAY. EVEN IN A DOWNTURN, THERE ARE OPPORTUNITIES. YOU HAVE TO FIND THEM. //

– Owner/Operator, Transport and Warehousing, 1-4 years in business, 37 employees, revenues undisclosed.

// EVERYBODY IS CUTTING BACK. THEY'RE LOOKING FOR WAYS TO CUT DOWN THEIR COSTS. EVERYBODY IS GOING OUT FOR CONTRACTS FOR WHICH YOU HAVE TO QUOTE, AND IF YOU GET THE CONTRACT, YOU HAVE TO BE PREPARED TO CUT YOUR INVOICES BY 20%. CUSTOMERS ARE TRYING TO SAVE MONEY HOWEVER THEY CAN. IT'S A WHOLE DIFFERENT BALL GAME NOW. //

– Chief Executive Officer, Other Industry, 1-4 years in business, 37 employees, revenues undisclosed.

FUNDING GROWTH

One-third of Alberta SMEs say they have lacked the capital to realize growth opportunities. A lack of growth capital is not the same as unprofitability, but its impact can be just as damaging to long-term success. As a testament to the entrepreneurial spirit of Albertan businesses, the remaining two-thirds of SMEs are still actively pursuing growth despite our province's economic challenges.

When trying to increase capital to accommodate growth, some options to consider may include:

1

Seeking out a strategic financial partnership with another organization that complements your business and its objectives.

2

Bringing in a private minority investor who brings capital, connections and expertise to the company but allows you to maintain your vision.

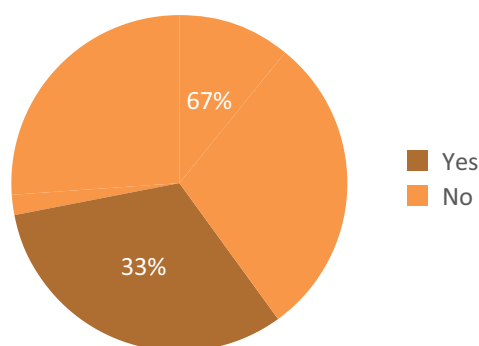
3

Considering a sale leaseback arrangement for company-owned real estate to unlock equity while allowing you to remain in your current location.

4

Exploring further financing options with a trusted financial institution. Often a regional lender will have a deeper understanding of the unique challenges and opportunities you are facing, and provide options that are best for your business.

"Were there business growth opportunities your company did not pursue during the recent economic downturn because your business lacked the necessary funds?"



// WE COULD NOT BID ON BIGGER JOBS BECAUSE WE DID NOT KNOW IF WE HAD THE FINANCIAL BACKING FOR THEM. //

– Senior Manager/General Manager, Utilities, 56 years in business, 5–19 employees, \$1 million to less than \$3 million annual revenue.

// ADVANCE MARKETING. JUST MORE MARKETING OPPORTUNITIES. FINANCIALLY, FUNDS ARE NOT AVAILABLE TO DO SO. WE ARE ALSO LOOKING AT UPGRADING AND EXPANDING, BUT CAN'T AFFORD TO DO SO. //

– General Manager (GM) or Office Manager, Automotive, 9 years in business, 1–4 employees, \$500,000 to less than \$1 million annual revenue.

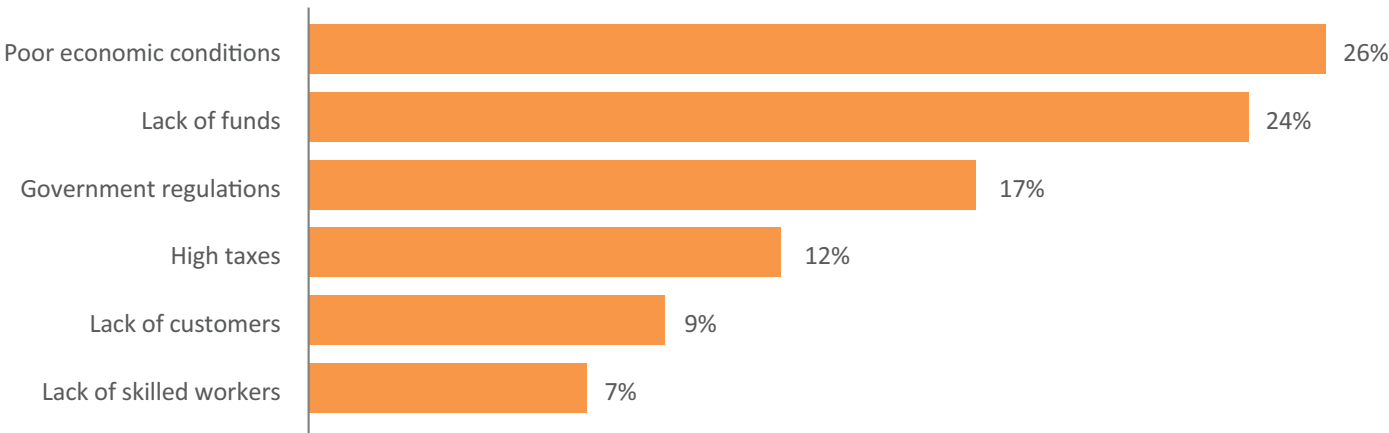
// IN OUR CASE WE HAD TO REDUCE STAFF BECAUSE OF THE DOWNTURN. THEREFORE, WE COMPROMISED OUR ABILITY TO PURSUE SOME OPPORTUNITIES WE WOULD HAVE OTHERWISE BEEN ABLE TO PURSUE. //

– Owner/Operator, Construction, 5–19 years in business, 35 employees, 1 million to less than 3 million in revenue.

THE ROADBLOCKS TO GROWTH

When asked about the biggest roadblocks businesses face when pursuing growth, 26 per cent of respondents cited poor economic conditions while another 24 per cent discussed lack of funds—both are signs of how much the recession has impacted Alberta commerce. SMEs find government regulations (17 per cent), taxes (12 per cent) and lack of customers (nine per cent) to be hurdles as well. Interestingly, seven per cent of businesses also indicated that a lack of skilled workers was a growth barrier. This may be a result of talent exodus from Alberta or, perhaps, the fact that businesses are embracing technological and digital change. It may also indicate that for organizations to stay ahead (or even keep up) in their sectors, they require funds to be competitive in attracting innovative and forward-thinking talent.

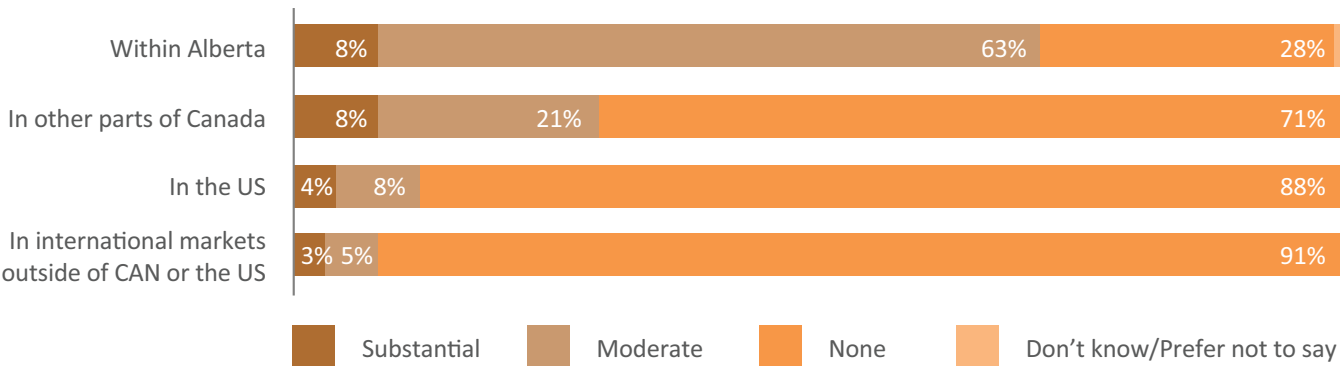
“What would you consider to be the BIGGEST barrier that would keep a business from becoming larger?”



STAYING PUT DOESN'T NECESSARILY GET YOU VERY FAR

When asked about plans to expand and grow into other markets, 29 per cent of respondents are looking into expansion nationally, 12 per cent are interested in growing into the US and only eight per cent are interested (or invested) internationally. Meanwhile, a large share of SMEs still have interest growing their business here at home (71 per cent). The focus on growing in Alberta may be a sign of political tension and trade barriers between Canada and the US—and the fact that so few Alberta businesses are incorporating new market entry into their business plans is most certainly the product of economic uncertainty. However, while investing in new markets may feel risky, it can help businesses get back on course for long-term growth and success. If you're considering new market investment, do the market research and have a solid entry plan. Export Development Canada (EDC) and Alberta Economic Development and Trade (EDT) are great resources to help you get started.

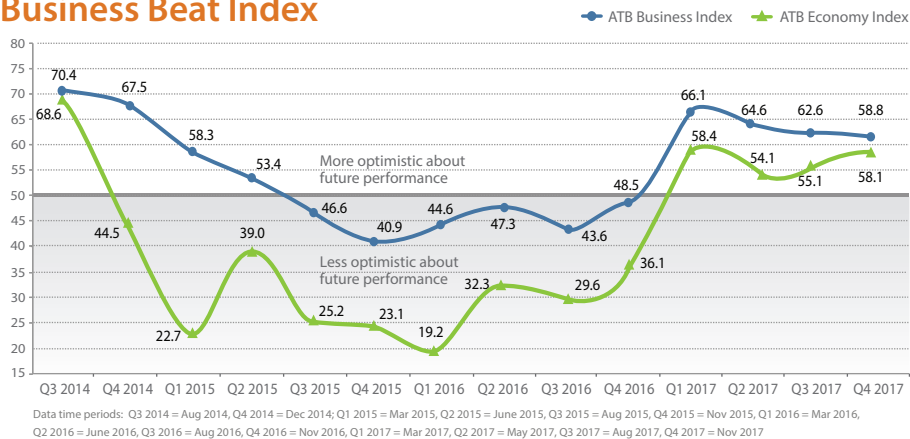
“Given the recent economic downturn in Alberta, how would you describe your business' growth plans in each of the following markets?”



ATB BUSINESS BEAT INDEXES

ATB's Economy Index shows that while small and mid-sized businesses remain optimistic, they aren't necessarily expecting overnight economic growth. With a modest increase in the number of SMEs that believe Alberta's economy will be stronger in six months, the index climbed slightly from 55.1 in Q3 to 58.1 in Q4. A value of more than 50 means more SMEs are more optimistic than not. While the climb has been slow, it is worth noting this is the fourth straight quarter where optimism has outweighed pessimism.

Business Beat Index



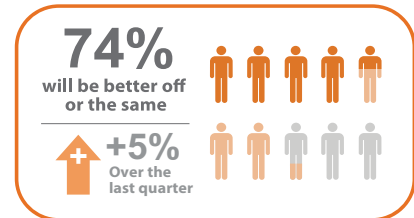
While SMEs have expressed cautious optimism about the province's economic growth, ATB's Business Index has dipped every quarter this year from a high of 66.1 in Q1 to 58.8 in Q4. This decline shows that despite there being positive sentiment around where the province's economy is heading, the overall economic recovery is expected to be slow and steady. Ultimately, this may cause businesses to take a more cautious approach to growth investment in the near future.

At the time of the survey in mid-November, the price of Canadian crude was failing to achieve mentionable growth. While this explains a slight drop from 65.2 to 62.2 points on the industry's business index, the economic index showed little movement in the last quarter, indicating Albertan SMEs remain cautiously optimistic. Despite retail showing strong sales numbers, many are expecting the industry to slow, including retailers themselves. Like energy, this explains an overall drop in optimism among SMEs in the retail sector with the business index dropping a significant 14.3 points from Q1 to Q4. With building permits down drastically from last year, it's safe to say construction is also slowing throughout the province. Still, the sector remains positive with a business index of 61.8.

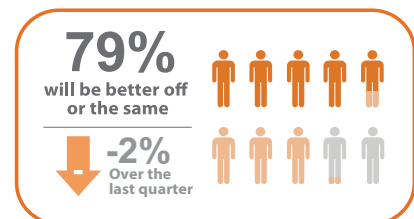
As Alberta's economy gains traction, SMEs remain optimistic about the future.

"How do you think... will be six months from now?"

Alberta's economy



Your company



% better off % the same % worse

ABOUT THIS REPORT

For more information on this report or the next ATB Business Beat, please email businessbeat@atb.com or visit atb.com/businessbeat to be put on the mailing list.

About ATB Financial

ATB Financial (www.atb.com) is the largest Alberta-based financial institution, with assets of \$43.1 billion. ATB offers retail financial services, business and agriculture financial services, corporate financial services and investor services to more than 710,000 Albertans and Alberta-based businesses in 244 communities in our province. ATB Business and Agriculture provides services to Alberta's small and mid-sized businesses, farmers, and other agriculture customers. To find out how ATB Financial can help your business grow, please contact Teresa Clouston, Executive Vice-President, Business & Agriculture at askteresa@atb.com



About NRG Research Group

NRG Research Group (nrgresearchgroup.com) is a leading Canadian public affairs and market research company with offices in Calgary, Vancouver and Winnipeg.

Who did we talk to?

These findings are from an ATB Business telephone survey conducted during November 2017 with 300 randomly selected Alberta SME financial decision makers. Study exclusions: agriculture (farms or ranches), government, financial institutions, and large businesses (500+ employees). Business size definitions: SOHO (0), micro (1-4), small (5-49) and medium-sized (50-499 full-time employees).