

ATB BUSINESS BEAT:

The pulse on business in Alberta

ATB Business™

Volume 19, October 2017

Are Alberta businesses getting the most out of their working capital?

All businesses, regardless of whether they're just getting off the ground, growing or well-established, need to manage their working capital efficiently to boost growth and capitalize on potential opportunities. At times, a business may need to increase its working capital to meet a sudden increase in market demands, scale up strategies across the board, or (as is the case for many Alberta businesses) fund day-to-day operations during times when local, national and even global business markets are on economic stand-by.

We decided to take an in-depth look into how Alberta small and mid-sized businesses (SMEs) perceive working capital. We also asked SMEs about external factors impacting its availability, how they are working to improve their situation, the role business debt plays and some of the invaluable advice they've received about how to manage working capital most effectively.

As always, we asked whether or not Alberta SMEs believe the Alberta economy, and their business, will be better off, the same or worse off six months from now.

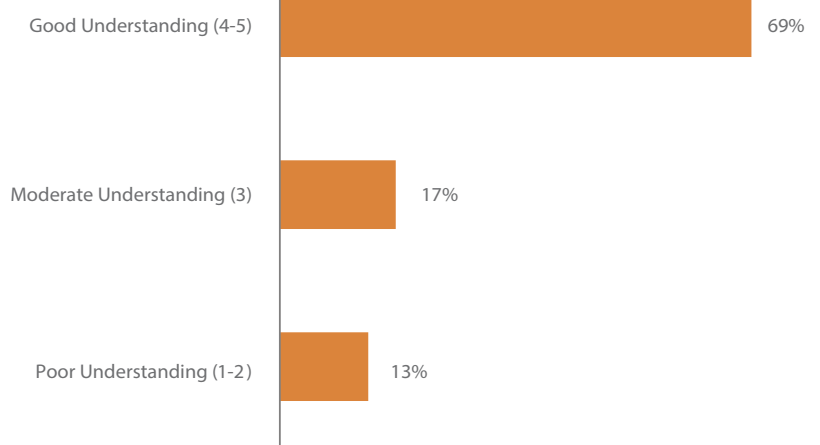


UNDERSTANDING WORKING CAPITAL

"Where would you rate your own comprehension of the term 'working capital'?"

Working Capital

We are defining 'working capital' as the sum of assets (such as cash on hand, accounts receivable and inventory) minus the sum of liabilities (such as accounts payable and expenses).



On the whole, most SMEs (69 per cent) rated themselves good when we asked how they would describe their understanding of working capital. Still, 30 per cent rated their comprehension as moderate to poor, which could have a significant impact on the long-term success of their business given how directly working capital impacts day-to-day operations. This signifies an overarching need for many SMEs to dig deeper into the value of effective working capital strategies.

TOP THREE FACTORS IMPACTING WORKING CAPITAL

“Thinking of the past year, which one factor has had the biggest impact on your business’ working capital levels?”



It’s clear the state of Alberta’s economy has had a significant impact on working capital for Alberta’s SMEs. The highest number of respondents (26 per cent) directly linked the economy to having an impact on their working capital. A decrease in sales (16 per cent) and changes in government policies and tax legislation (15 per cent) were also widely recognized as having significant effects. All businesses can benefit from a renewed focus on working capital. While it is an important source of liquidity throughout the normal business cycle, it is especially critical during a downturn. This is when a decrease in sales often occurs at the same time as customers taking longer to pay—further straining cash flow. The payoff for effective working-capital planning can be even greater during an economic contraction when access to external funding is often reduced.

“THE COMPANY IS DOING MORE RENTALS. NOW CUSTOMERS HAVE GONE FROM PURCHASING TO RENTING, WHICH TIES UP OUR CAPITAL.”

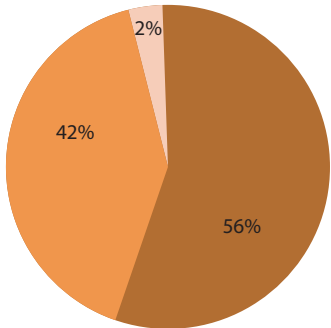
- Chief Executive Officer (CEO), Construction, 8 years in business, 5 - 19 employees, \$5 million to less than \$10 million in revenues.

“OVERALL DROP IN BUSINESS VOLUME. REVENUE FALLS THROUGH THE BOTTOM OF THE FLOOR BUT COSTS DON’T GO DOWN. RENT IS RENT AND CITY TAXES ARE FIXED WHILE REVENUE GOES UP AND DOWN.”

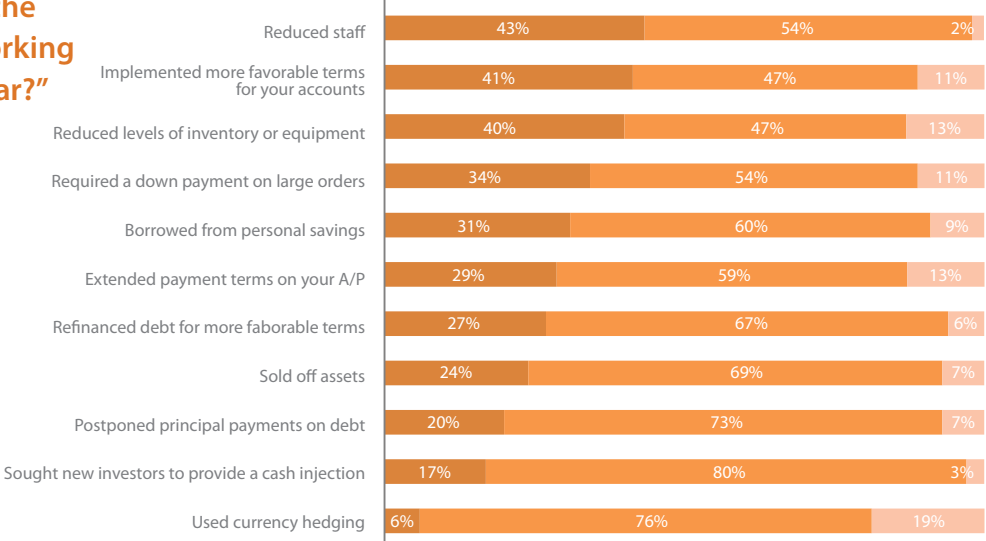
- Owner/Operator, Equipment Sales & Parts Service, 21 years in business, 5 - 19 employees, \$3 million to less than \$5 million in revenues.

STEPS TO IMPROVE WORKING CAPITAL

“Has your business taken any of the following steps to improve its working capital situation over the past year?”



- Yes
- No
- Don't know/Not Applicable



Fifty-six per cent of business owners said they are actively taking steps to improve working capital. This shows the resolve of SMEs to restore balance sheet liquidity and to think positively about preparing for growth – a reflection of Alberta’s entrepreneurial spirit.

When asked what steps they are taking to implement working capital growth strategies, the responses were as unique and varied as the businesses themselves. Seventeen per cent of respondents said they had sought out new investors to inject cash into the business, while 24 per cent have sold off assets. A significant number of SMEs (43 per cent) are minimizing staffing levels while 41 per cent are trying to stay competitive by introducing more favourable terms into their negotiations. When asked if they had taken any other steps to improve their working capital situation, 26 per cent of those who had taken steps cited expansion and/or company growth.

// ...THE VENDORS HAVE TO WAIT LONGER FOR THEIR MONEY. WHAT USED TO BE 30 DAYS FOR US IS NOW 75 DAYS PLUS. THAT SEEMS TO BE BECOMING THE NEW STANDARD. //

– **Director, Industrial Boilers & Furnaces,**
19 years in business, 20 - 49 employees,
\$10 million to less than \$15 million in revenues.

// WE HAVE MODIFIED WORK SCHEDULES, NOT NECESSARILY REDUCING STAFF. WE HAVE CHANGED PRICING PLANS FOR PRODUCTS AND SERVICES. //

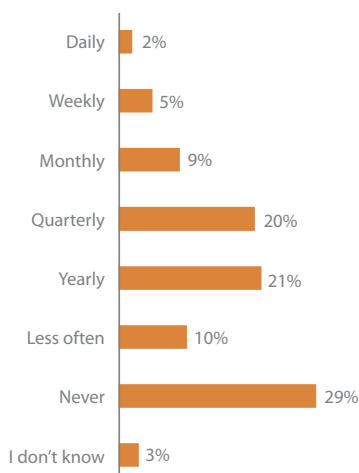
– **Chief Financial Officer (CFO), Government Services,**
86 years in business, 20 - 49 employees,
\$1 million to less than \$3 million in revenues.

Thirty-one percent of those who have taken steps to improve their business' working capital have pulled funds directly from personal savings to supplement working capital needs, showing the close connection between many Albertans' businesses and their personal lives. Twenty per cent of those who are actively trying to improve working capital have chosen to postpone payments on principal debt to keep cash flow available. While pushing off debt payments may seem like a viable short-term solution, it can lead to business disruption down the road. If you are an organization working to improve your working capital, a conversation with your business banking expert may open up room for negotiating more manageable terms while also providing insight into what other options may be available.

THE (CAPITAL) VALUE OF GOOD ADVICE

Regardless of a company's size or industry sector, working capital is one of the most important metrics in assessing both the short term and long-term financial health of the business. Its main purpose is to provide the necessary liquidity to meet commitments and to provide capital for growth. Effective working capital planning will help to improve an SME's overall profitability and to reduce stress in day to day operations. For these reasons, it's always good to get some financial expertise surrounding the most effective working capital management strategies.

"How often does your business seek out advice and expertise relating to managing its working capital?"



Still, 29 per cent of those asked have never sought out professional advice surrounding how to manage it most effectively, while only two per cent of SMEs are assessing effective working capital management on a daily basis.

Most respondents found the most meaningful advice came down to simple strategies such as reducing debt (seven per cent), looking for better saving opportunities (seven per cent), living within your means (six per cent) and careful planning (four per cent). While high-level, sophisticated planning certainly has its place in the business landscape, sometimes focusing on the basics can be the best place to start.

"What is the most valuable piece of advice your business has received relating to managing its working capital?"



// LIVING WITHIN OUR MEANS. THAT IS, DON'T SPEND MONEY THAT YOU DON'T HAVE COMING IN. //

– **Managing Director, Staffing Services,**
39 years in business, 100 – 199 employees.

// BASICALLY STAY ON TOP OF BILLING PRACTICES, INVOICING. //

– **Owner/Operator, Business Services,**
19 years in business,
Less than \$250,000 in revenues.

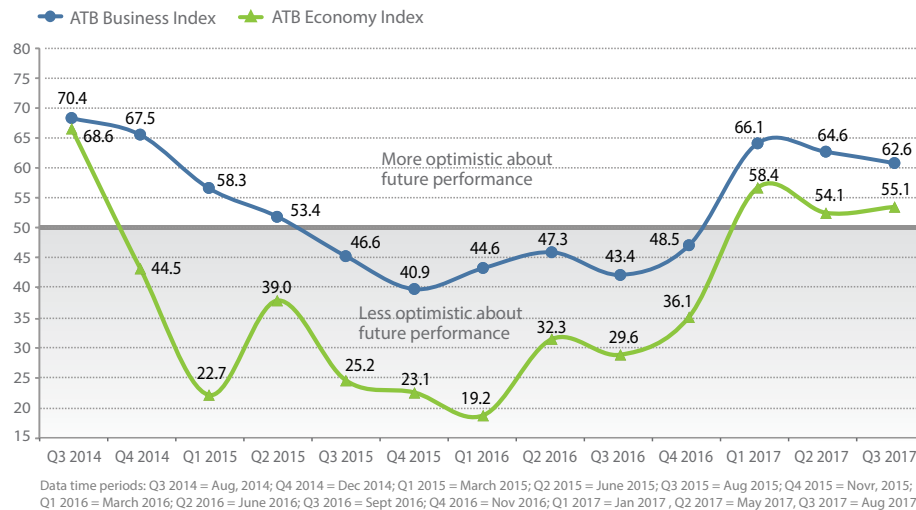
// CUTTING COSTS WHERE WE CAN AND NOT HOLDING A LOT OF DEBT. //

– **Chief Executive Officer (CEO), Energy,**
14 years in business, 20 - 49 employees,
\$10 million to less than \$15 million in revenues.

ATB BUSINESS BEAT INDEXES

ATB's Economy Index shows small and mid-sized business may be anticipating slow and steady growth with a slight increase in the number of SMEs that believe Alberta's economy will be stronger in six months. The Index climbed marginally from 54.1 in the second quarter of the year to 55.1 in the third. A value higher than 50 tells us more SMEs are optimistic than pessimistic about the future. It is also worth noting this is the third straight quarter where optimism has outweighed pessimism, following six consecutive quarters of the opposite.

Business Beat Index



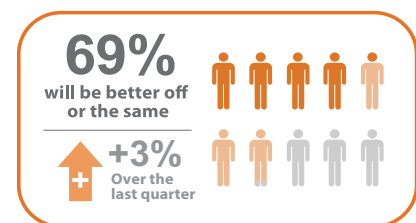
While it's safe to say SMEs have expressed a cautious optimism surrounding the provinces economic growth, ATB's Business Index dipped from 64.6 in the second quarter to 62.6, in the third, down 2 points and a total of 3.5 points from the first quarter. This decrease could lead to a more careful approach in developing growth strategies and addressing business challenges from a spending perspective.

At the time of the survey in mid-August, the energy sector saw oil drop to \$45 a barrel while retail experienced gradual growth. Though the above reflect reason for hesitancy surrounding the possibility of rapid growth, there is room for optimism. For example, construction throughout the province has seen a 34 per cent increase in new housing starts since last year while home renovations are at a record high in 2017.

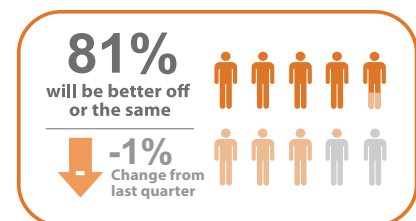
SMEs are keeping an eye on slow and steady growth.

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

Alberta 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 amplifybusiness@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 (www.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 August 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.