

CEO Insights

In conversation with 300 CEOs of Canada's leading private companies

Few predicted how sharp and how deep this recession would go and one could be forgiven for expecting Canadian CEOs to be mired in pessimism. In fact, we can report that many Canadian private company leaders are remarkably optimistic, determined not only to survive this downturn but to take advantage of its volatility to create the conditions for thriving in the coming recovery.

This is just one insight resulting from an extensive, cross-Canada series of discussions with more than 300 CEOs of leading private companies. Our Chairman John Bowey, our Quebec Chair Luc Villeneuve and a small number of our senior partners have cut through the headlines to directly collect insights on what business leaders are experiencing and, importantly, what they and their management teams are doing to address the situation. We remain confident that Canada's private company leaders will play an essential role in pulling the national economy out of this slump.

It is often said that a rising tide lifts all boats and this was true of the Canadian economy over much of this decade. Many of the companies we met have excellent balance sheets, allowing them to look at this recession with as much of an eye to opportunity as to the risks. As reported, optimism prevailed in our meetings, but realism was not absent — a poor economy often lays bare any operational or strategic faults and these leaders were watchful for such weaknesses

Reassuringly, we noted a clear bias to act in the majority of CEOs — most were actively addressing operational issues and pondering their strategic options. We recommend that all companies invest time immediately to uncover any operational or strategic weaknesses and deal with them. We advocate a thoughtful and purposeful approach to changes and applaud the bias toward action we observed.

In this version of *CEO Insights*, we share the wisdom we have gathered in these meetings and offer some advice and commentary on what you can do to emulate the actions of these leading CEOs.

Access to capital

Virtually every CEO we talked to was concerned about access to capital, not just to drive their normal business operations, but for capital spending and/or to support planned acquisitions. Leading CEOs are pursuing more frequent and open discussions with their lenders, candidly assessing alternative sources of capital, garnering second opinions on possible sources of financing and on the fairness of existing terms and conditions, and carefully ensuring existing terms and conditions are not breached. The credit market continues to be volatile and we feel it is prudent to take steps to ensure your business has the capital it requires under both present conditions and potentially worsened conditions.

Keeping the right talent

Most CEOs recognized there is a core group of critical people in their business that drive the bus. Preserving value in volatile times requires strategies and means for retaining your best people.

We noted a significant increase in attention spent on internal communications. CEOs are engaging in straight talk with their teams and increasing two-way communication within the company. They are trimming non performers, broadening job responsibilities, and "trading up" where needed given a labour supply that is recently flush with talent. CEOs were also involving their teams in painful decisions, generally seeking the view of their best people on who and where to cut.

Now is not the time for status quo talent strategies. Companies have a number of options for focusing on their talent and we have attached [a Deloitte viewpoint](#) revealing 12 key findings on how leaders are tackling today's immediate talent challenges while positioning their companies for longer-term success.

Thirst for knowledge

Within the business community, economists are the new rock stars. Many CEOs we talked to had recently seen a leading bank or think tank economist speak; no wonder given the degree of volatility and unprecedented speed with which this recession has come on. CEOs were clearly looking for knowledge from two sources:

- external sources such as professional advisors and economists, etc.
- internal sources through a careful review of metrics and by fully engaging front-line staff to find out what is really going on.

Many CEOs had adopted the old adage, “managing by walking around” and were actively engaging their people in helping determine how to cut costs and serve clients better. Some were using regular workshops to uncover key business issues. One retailer went to the mall on Saturdays, not to shop, but to talk directly to his store managers about what they were seeing. Reading the signs internally and considering what they mean was a clear trend we noted. We would advocate CEOs satisfy themselves they are measuring the right things with the right frequency.

Managing with uncertainty

Volatility makes planning difficult and many CEOs are struggling with setting reasonable business assumptions. In response, several CEOs have considered alternate scenarios, particularly around continued volatility and the length and severity of the downturn. We highly recommend scenario planning; asking “what happens if” can lead to better decision making and helps prepare leaders to deal with rapidly changing conditions.

Furthermore, as Canada’s Chartered Banks spend more time stress testing their clients’ business plans, scenario planning helps CEOs prepare to meet the higher bar set by their banker. We believe leaders should build models that allow a variety of assumptions to be explored for basic inputs such as the price of oil, exchange rates, interest rates, loss of a key customer and loss of a key supplier, etc. This modeling will help companies plan their response to different scenarios, a process we feel is vital for management teams.

Revisiting strategy

Over the months that we travelled the country we noticed a growing acceptance that this downturn would be extended. Accordingly, CEOs are beginning to revisit the basic assumptions their business plans are built on as many of these assumptions may have changed. Several CEOs were also considering new markets and new business ventures, particularly if their historic markets were badly damaged. With necessity being the mother of invention, CEOs had begun to explore innovation strategies in all aspects of their business.

We asked CEOs whether they had considered a “less for less” strategy. In a recession, customers naturally tend to overweight cost as a factor, so it can be rewarding to find ways to offer customers less at lower prices, ideally while maintaining or improving margins.

Revisiting strategy makes good sense in a rapidly changing economic climate. CEOs should ensure the path they are on continues to make sense and determine if a change in direction or tactics is warranted.

Getting closer to customers

Most CEOs we spoke with are spending a lot more time worrying about how their customers are being affected by the downturn, and how they can help them address *their* pains. Almost all had increased the amount of time spent with customers. Customers are demanding a more tangible return on investment, and several CEOs had their teams working to better articulate the value proposition their product or service provides.

Some of the best companies we talked to had offset volume reductions with improved focus on margins and productivity. We believe in the value of customer segmentation to ensure you remain focused on those customers who are most critical to the success of your business.

Mergers and acquisitions

Interestingly, many of the CEOs we talked to are considering acquisitions, and as a result we are convinced there will be a torrent of M&A activity once the trough in this economic cycle is seen. A number of CEOs are surveying the landscape, grappling only with the issues of: who to buy, when to pull the trigger and how much to pay. Access to capital to finance M&A activity was clearly a major concern for many and given the volatility most were not proceeding at present unless the deal was perfect. We anticipate that this will rapidly change when there is a clear sense that the economic outlook will be brighter. We would advocate every CEO consider this scenario and begin to prepare for acquisition (or sale), and contemplate the effect of a merger among your major competitors, customers or suppliers.

Cost containment

Almost every CEO we met had already begun to reduce costs and capital spending, and were cutting discretionary spending across the board. That said, relatively few had started to challenge business processes or look at new technologies to increase long-term competitiveness. As the duration of this downturn extends, we believe companies will look at investments that pay off quickly in terms of productivity. With gallows humour, one CEO remarked “we have turned off the light at the end of the tunnel to save costs.”

Tightly managing cash and working capital

CEOs old enough to have experienced a severe recession in their career were more likely to have radically increased their focus on the balance sheet to ensure:

- All assets are still performing
- The debt structure is appropriate
- Cash balances are being carefully monitored
- Receivables are collectible and aging isn't deteriorating
- Working capital and its components are being carefully monitored
- Covenants are being respected and monitored
- Shareholder loans are secured and creditor proofing has taken place, as appropriate

CEOs have shifted their focus from the income statement to the balance sheet. Best practices we noted included more careful review of counter party risk wherever present, paying careful attention to the velocity of cash (i.e., the period from invoice to payment) within the company, and taking a more conservative stance on matters pertaining to the balance sheet in general.

Deloitte can help

We have deliberately avoided sales messages in this document to allow you to reflect on your business and on the outlook and strategies employed by the 300 CEOs we spoke to. Deloitte is very committed to helping private companies understand their position in this volatile economy and how they can create strategies to defend against the downturn and generate value in the coming recovery.

Some of the ways we are assisting clients today include developing strategies for accessing capital and offering a second opinion on a company's debt structure. We also are helping companies speed up the velocity of cash in the business. CEOs have asked us to develop a talent map for their organization and we are bringing tax ideas and other strategies to help these leaders retain their key people. Deloitte is assisting business leaders with business strategy, risk management, scenario planning and stress testing business cases, and we are helping clients cut costs, improve productivity and streamline processes. Clients have asked us to help them with customer segmentation and margin analysis. We are assisting companies with divestitures and also advising clients who are taking this opportunity to make a strategic acquisition.

We would be pleased to discuss how we can help your business defend, unlock and generate value in this volatile economy. Call us today to discuss whether you are doing everything you can to manage your business in these volatile times.

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