

marketing

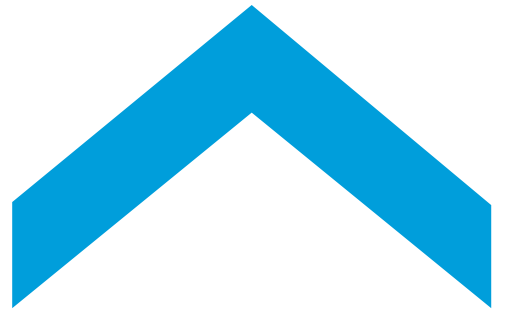
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MOVING UP DURING THE DOWNTURN

Month 2010

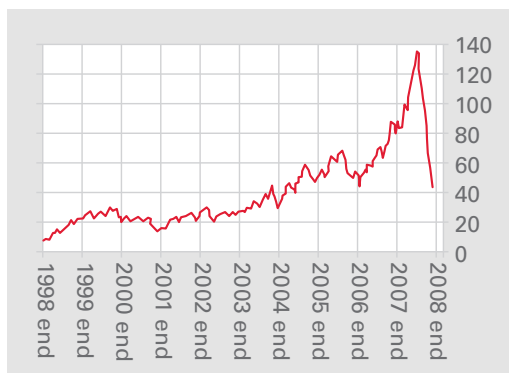
ACKNOWLEDGEMENT

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WHAT TO MAKE OF THE CURRENT ECONOMIC DOWNTURN?



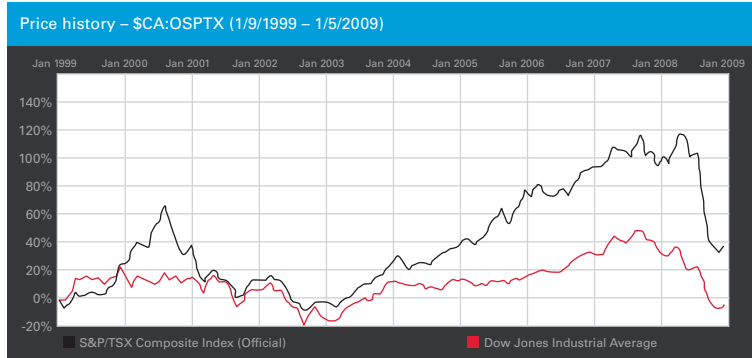
Price of Oil (\$US) from 1999 - 2008

RECESSIONS ARE PAR FOR THE COURSE

Economic downturns are a necessary part of a healthy business cycle, as they help to correct overvaluations and reduce excesses in the market. We are in the eleventh recession since the end of World War II and history shows that economic slowdowns have occurred at least once a decade; the most recent was the dot com bust in 2000 – 2001 after an amazing amount of growth and speculation in the IT and Internet sectors. The current recession certainly won't be the last we will experience.

WHAT CAUSED THE DOWNTURN?

It has been well documented that this crisis has been largely driven by the fall of the housing markets and a rash of bad lending decisions worldwide. As a result of this crisis, lenders have been hit hard and US banks alone are predicted to write off between \$1,300,000,000,000 and \$3,100,000,000,000 (yes that's trillion) in bad loans¹. Commodities have also had an impact on the Alberta economy as oil prices have fallen from over \$140/barrel to below \$50/barrel in the past six months.



TSX & Dow Jones Averages 1999-2009

market indexes losing almost half of their value in the last six months and most of the gains that had been realized since the dot com recession.

With banks hit hard by the credit crisis, a “cash crunch” has been created in which businesses, large and small, are finding it difficult to gain access to capital to help finance growth. With businesses experiencing reduced cash flow from the slowing economy, combined with reduced credit availability, many large-scale projects have been cancelled or shelved for the foreseeable future. Declining equity markets fueled by weak investor and consumer confidence have resulted in most

HOW BAD WILL IT GET?

No one can predict that for sure. Many of Canada's key indicators (i.e. interest rates, inflation, unemployment, etc.) remain strong from a historical perspective and many predict that Alberta will weather the storm better than most. With that said, the challenges facing the US are significant and Alberta's economy will undoubtedly feel the effects. Some economists expect that the current economic downturn will be severe, serving in part as a major correction to the recent unsustainable growth in both housing and commodities. As the growth was both incredible and prolonged in many sectors of the market, the correction is likely to drag out well into 2009 and possibly beyond. At the end of the day though, for Alberta businesses, the only question that really matters is how will we adapt to what 2009 has in store?



HOW SHOULD MY BUSINESS REACT TO THE DOWNTURN?

The current economic climate poses some new and very hard questions for many businesses. Even the most seasoned and successful companies need to take pause to determine how their business should best react to and capitalize on the challenges and opportunities they face. Regardless of industry sector, size of company, geographic location, or longevity of the business, there are five key lessons that all business leaders can take to heart as they manage the twists and turns of changing economic times.

1. DON'T PANIC

“If you can keep your head when all about you are losing theirs...”

Rudyard Kipling

From a historical perspective, this recession is not extraordinary. The media's bias towards negativity and overstating current events at the expense of past ones results in a tendency to believe that the sky is falling. Nothing could be further from the truth. A few facts to bear in mind:

- Since 1970 Canada has only seen real GDP decline twice; drops in 1982 (-2.85%) and 1991 (-2.09%)² pale in comparison to the 26.5% decline experienced during the Great Depression. In contrast, the Bank of Canada's prediction for 2009, while a significant drop from recent highs, is still a 0.6% *increase* in real GDP³.
- Canada experienced a 27% unemployment rate during the Great Depression. Alberta's unemployment rate was 11% during the early 1980s and 9% during the early 1990s⁴. Our current 5% rate will likely climb this year, but is unlikely to near the levels of recent recessions.

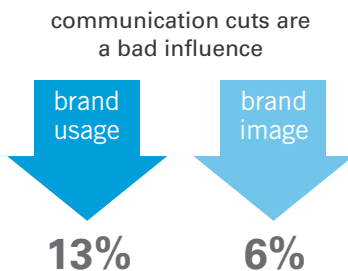
Emotionally reacting to the negative media surrounding the current downturn does little to help your business. Sound judgment and deliberate decision-making are necessary to navigate through difficult times; businesses need to focus on what they can directly control and influence.

Use the current negative media machine as a good reminder not to overreact during positive times either. We have just experienced years of incredible expansion in the real estate sector. As euphoric as we all were with escalating real estate values, it was unrealistic to expect our homes to continue to double in value every few years. The recent decline is a reasonable correction. When things seem too bad or too good to be true, they usually are—keep a balanced perspective and avoid making knee-jerk decisions.

Above all, it is important to bear in mind that **good businesses can still do well during bad times**. Don't lie awake at night focusing on how difficult or challenging the market conditions may become during 2009. Instead, dream of new ways to become a more efficient and well-run company.

2. DON'T HIDE

Choosing to pull back during a recession feels like the safe thing to do, but is one of the riskiest actions a business can take. Research, customer service, client education and appreciation, sales, business development, and communications are common areas where businesses cut costs during tough times. However, those same cuts diminish contact with clients and prospects, and negatively impact a client's experience with your business.



In one study, brand usage and brand image both suffered considerably (13% and 6% declines, respectively) when brands “went dark” (i.e. ceased to spend on communications) for a period of six months or more⁵. Even more powerful, **companies that increase marketing spending during recessions recover three times faster in “normal” times**. Similarly, B2B companies that maintain or increase marketing spending in a recession achieve higher growth, both during the recession and for three years thereafter⁶.

Your staff and your clients sense fear. Projecting confidence and maintaining or increasing spending on previously effective initiatives is an important means of demonstrating leadership and building trust with your most important stakeholders. They want to know that you aren't going anywhere and they need to see you and your business consistently to be reminded of this. Across the board cuts may provide you with short-term reassurance to meet next month's payroll, but the long-term implications are profound and difficult to recover from.

3. FOCUS ON YOUR BEST CLIENTS

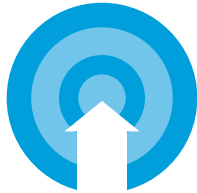
Stay focused on key clients and customer segments that make you the most money. Emphasize activities that bring you closer to these clients and help you reinforce the reasons you are better, stronger, and faster than your competitors. Understand and be prepared to tell your story and outline your key differentiators because your prospects and clients will need to be reminded of these now more than ever. Communicate these key messages regularly with your stakeholders so they know your business remains strong and value proposition remains consistent even though times are tough.

During a downturn, focus on the following:

- **Be proactive** – rather than waiting for your clients to contact you and advise they are cancelling your contract, call your important clients and meet with them to discuss the anticipated impact of the slowing economy on their business. Be prepared and armed with valuable data that is relevant to their business operations, and if possible, how your firm will be able to assist them in exploiting the opportunities that recessions inevitably present. Proactive communication will help position your business as a trusted advisor, and not an easily replaced order taker.
- **Leverage referrals and word-of-mouth** – during a downturn, clients will be reluctant to make decisions and will take longer to pull the trigger. They will need multiple affirmations, particularly from peers and mentors, before they choose to proceed. Work to ensure you are generating referrals from your best clients and leveraging positive word-of-mouth in the community to best position your business during challenging economic periods.
- **Maximize your marketing and communications budget** –cash flow will tighten for many companies in the coming year and some cuts may be required. Look to get the most out of your marketing dollars by leveraging existing business development efforts and low-cost solutions that emphasize client engagement and communication. Move money from expensive and hard-to-measure mass media and funnel it to more cost-effective activities such as on-line, event, and relationship marketing.

4. SEIZE THE DAY

All economic conditions create opportunities and the current downturn is no different. A weak market can be a significant opportunity for aggressive action. With many competitors choosing to pull back with an attitude of weathering the storm, investments you make now to expand your business can have double the traditional impact.



Target strategic opportunities to grow during a downturn

If your company has a strong cash position or access to capital, a downturn can allow you to make strategic acquisitions to add additional products, services or capabilities at a fraction of what it may have cost a few years ago. The same is true of attracting top talent. There will inevitably be casualties from the current slowdown which will present opportunities to attract new people. Stay connected within your industry and be ready to act when opportunities present themselves.

Finally, opportunities to secure new accounts will emerge. With belts tightening, customers are bound to be more demanding and will re-evaluate spending with current service providers. Leverage your strong financial position by targeting your competitor's key accounts, putting pressure on them to spend money they may not have to keep them. Alternatively, leverage any excess production capacity to offer faster turnaround times or to showcase value-added services/products.

5. PREPARE FOR TOMORROW

One thing we know for sure is that the economy will rebound – it always does. While it may take a year or two for the banking, equity, and commodity sectors to turn around, it is important to understand that the world's ongoing demand for fossil fuels, Alberta's significant role in Canada's economy, and our low taxes and strong business climate will result in opportunities for strong economic growth as we emerge from this recession.

Your business needs to be prepared to exploit these significant post-recession opportunities.

Position your business to fulfill its long-term objectives and emerge from the downturn as a market leader. Key areas to focus on include:

- **Leverage internal capacity to strengthen your business and further your reputation.** Treat excess capacity as an opportunity to refine systems, build processes, and entrench your brand in the market, not as a potential area to marginally reduce costs.
- **Eliminate weak links and loose ends.** Position your business to break ties with and replace low margin clients, poor suppliers, and underperforming staff.
- **Research trends and opportunities.** Take time to examine your competitors, discover new markets and better understand your clients. This information will prove powerful as you seek new opportunities to drive your business forward.

SUMMARY

The current economic downturn will present Alberta's business community with challenges it has not faced in many years. With that said, it will also present opportunities for strong businesses willing and able to take strategic and decisive action. As you contemplate how your business can move up during 2009, bear in mind the following advice:

- **Don't panic** – the coming year may test your nerves, but a calm, measured approach will serve you well in the long-term
- **Don't hide** – now more than ever your business needs to be visible and you must avoid the temptation to save a few dollars at the expense of your brand's long-term equity
- **Focus on your best clients** – emphasize efforts to strengthen and leverage relationships to entrench your business with your top clients
- **Seize the day** – go after promising acquisition and growth opportunities that exist in today's market
- **Prepare for tomorrow** – get your business ready today for the upturn that may be just around the corner

Finally, **these five areas of focus will help maximize a company's value in good times or bad.** Whether you are looking to grow, entrench or exit your business, by focusing on the key elements outlined in this paper, you stand a high probability of increasing the value of your company.

INCITE

Incite is the recognized thought leader in integrated marketing that strengthens relationships. Through people, connections, ideas, and experiences, Incite helps clients strengthen relationships with their clients and other key stakeholders. Its talented team of marketing and creative professionals takes a refreshing, collaborative, and results-oriented approach to marketing that emphasizes marketing strategy first, followed by rigorous implementation. Using this model, Incite delivers marketing that stirs emotion, inspires action, and drives results.



ACKNOWLEDGEMENT

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DAI Capital Advisors Inc. is a leading independent investment banking boutique serving mid-market Canadian companies and their owners by providing expertise in acquisitions, divestitures, corporate finance and advisory services.

To learn more, please contact Ron Dersch directly (780-409-9411) or visit www.daicapital.com.

1 Cogman, David, and Richard Dobbs. "Financial Crises, past and present." *The McKinsey Quarterly*. December 2008. January 2009 <http://www.mckinseyquarterly.com/Financial_crises_past_and_present_2272>.

2 OECD (Organization for economic co-operation and development) Stat Extracts. 2008. OECD. January 6, 2009 <<http://stats.oecd.org/WBOS/index.aspx?DatasetCode=CSP2008>>.

3 Harrison, Jeremy. "Bank of Canada releases Monetary Policy Report." Press Release. Bank of Canada. 23 October 2008. January 2009 <<http://www.bankofcanada.ca/en/press/2008/pr08-22.pdf>>.

4 "Annual Average Unemployment Rate Canada and Provinces 1976-2008." Newfoundland & Labrador Statistics Agency. January 2009. January 2009 <http://www.stats.gov.nl.ca/Statistics/Labour/PDF/UnempRate_7608.pdf>.

5 Field, Peter. "Marketing in a Downturn." *Market Leader* (Autumn 2008): 27. WARC Online. January 2009 <<http://www.warc.com/>>.

6 Hillier, Tony. "Successful Competitive Strategies for Recession and Recovery." *Market Leader* (Spring 1999): 2. WARC Online. January 2009 <<http://www.warc.com/>>.

Fig. 1. "Price of Oil (\$US) from 1999-2008" from <http://futures.tradingcharts.com>. January 2009.

Fig. 2. "TSX & Dow Jones Averages 1999-2009" from <http://moneycentral.msn.com>. January 2009.