

Alberta Needs to Learn from the Eggs in the Basket Fable

BY MELANIE DARBYSHIRE AND NERISSA MCNAUGHTON
BUSINESS IN EDMONTON

DECEMBER 30, 2016



Michael Selci, Senior Vice President, Financing and Consulting, BDC.

The classic phrase *don't put all your eggs in one basket* accurately sums up a predicament many Alberta businesses find themselves in as the recession wears on.

“We are into a bit of a journey here in Alberta because shortly we’ll be into the third year of this new environment,” admits BDC’s Michael Selci, senior vice president, financing – Prairies. “The requirement of the new environment is diversification. Prior to the downturn, [Alberta had] solid, profitable companies, but very few business owners had to wonder how to diversify. They had great

business models that allowed them, under the previous environment, to do well; but frankly, they weren't diversified."

BDC is an entrepreneur-focused banking institution, which gives it a big-picture view of how companies have (or have not) coped with the economic reality.

"The new environment for one year is one thing, but a new environment for two or three years going forward is different," Selci continues. "Now, these business owners must explore alternatives. They need to diversify now, if they haven't already started."

Selci is happy to point out that many companies have responded with agility, and have branched out by:

- Looking into new products and services that build on their existing strengths.
- Having more than one major client. "Reliance on one or two large companies is not a formula for success. No one client should occupy more than 10-15 per cent of receivables," cautions Selci.
- Seeing how their services can apply in other industry sectors such as agriculture, construction and beyond, not just in oil and gas.
- Expanding their service regions outside of Alberta, and outside of the country.

"What are the winners doing?" Selci says they are "Taking their products and services to new markets. Their technologies. Their processes. They might be into risk management or safety services that were really big in oil and gas, but there is mining or construction, for example, that need risk and safety services as well, both in and out of Alberta. They take these services to them and are finding complementary services or products. They may have a niche in fixing machinery in oil and gas. Well, you can fix machinery in trucking, agri-equipment logistics – other types of areas that are complementary to what they do, and maybe in a different region or country.

"They are implementing internal solutions. Many have tried to cut costs and put in digital solutions along with improving skills and training in sales and marketing for their people, or they have hired marketers. They need to have a presence of sales and marketing people in the new geographic area that they are looking at going into. If it's a new province or town or country, having a marketing presence there is one of the keys to success when it comes to increasing your customer base."

BDC has a free online tool on its website to help companies assess their productivity, determine how they measure up to their competitors and identify areas where they can improve and diversify.

Teresa Clouston, executive VP, business and agriculture, ATB Financial® also has some key insights about diversification.

“Have more than one major client,” Clouston counsels. “When we look at a business and talk with them about financing, this comes up. We look at their clients, account receivables, and talk to them about how they make money and how they get paid. “How might having one major client and being really focused on them limit your ability to take on new opportunities, or pose risk due to this reliance?”

Clouston notes, however, that one must take calculated steps down the diversification path. For example, “Being located in more than one location can really increase your brand, but it may be important to control distribution in your expanded market; you have to think about how you would do that. Do you also have to set up a distribution network to protect the promise you put out there to your clients? You have make sure you go all the way into those various markets to protect the value proposition.

“When expanding product or service offerings, we always want to understand what the products and services are and how they work. When diversifying the product suite, understand what each enterprise brings to the business.”

She gives an example of a coffee shop that is doing really well, so they decide to include pastry sales. The shop would have to identify how the addition of pastry can support coffee sales, and what types of baked goods are trending. If the venture into pastry does not work out, how do they back out of that market gracefully?

“The notion of having a diverse service suite: we really like it because it mitigates that risk – but it also divides the attention of the entrepreneur. I’m a big advocate of having diversity, but you need to be able to support it. There is a fine line between diversity and divided. Vendors get nervous if your attention is fractured.”

That being said, Clouston notes an undeniable upside of diversification. “One of the really attractive things about diversifying is that component of innovation and creation. The concept of entrepreneurs and companies inventing something that their competitors or customers haven’t recognized as an opportunity is really Albertan, and it’s one thing we love in our entrepreneurs! If companies are satisfied and successful with what they are doing, we would be missing the opportunities to innovate and create something new and special. Diversification opens the door to doing something brave and new and bringing that opportunity into this marketplace.”

At Maggnum Ventures Inc., diversification has always been a part of the core strategic plan. The real estate development and investment company has a history of expanding its business beyond its main focus by becoming involved in software, media, hospitality and oil and gas businesses.

Now, as a result of Alberta's economic woes, Maggnum is diversifying once again. First, it has taken a new approach to its real estate business. "We first set out to build in Alberta," explains Matthew Grieve, president, "and now we look to purchase. There were a lot of buildings built in Alberta during the boom. Now the opportunity is to purchase existing buildings far more than it is to build new ones." The company is looking at acquiring opportunities across Alberta, and has made a recent purchase in Edmonton.

Maggnum has also diversified by expanding its property development business outside of Alberta. Grieve highlights Saskatchewan and Winnipeg, in particular, as places of opportunity on the development side. "We have always focused on Western Canada," he says. "We're building a four-phase suburban office park called Harbour Landing Business Park in Regina right now."

Second, the company has diversified into a new business. Last year, Maggnum funded and became a partner in a new waste management company called Local Waste Services in Edmonton. "We became involved because the people are great, it's still in Alberta and it diversifies us outside of the real estate market," explains Grieve. "We're definitely excited about it. We believe there are a lot of upside opportunities."

At ResourceYYC, diversification equals opportunity. The company, born last year as a direct result of the recession and a corporate need to survive, is a co-working space for professionals in downtown Calgary. It was started after co-founder Bill Scott was forced to put his own environmental service company into hibernation.

"In 2015 it became evident that there would be nothing left to do," Scott explains. "We still had a great management team and were looking for something else to do with that team." With a long-term lease for a beltline property on his hands, he partnered with co-founder Ron Bettin (whose petroleum company was also on ice due to the downturn) to start the new business.

They partnered with several local software vendors including geoLOGIC, Energy Navigator, SeisWare, Divestco and OpenTec who provided ResourceYYC with professional software to use on their closed network. The software is available for use by individuals and companies with various accessibility options and rates. The company also offers office and/or desk rentals, meeting and event space and various other member services.

“We put an invitation out to the geologists and other professionals sitting at home who wanted access to the tools and the peer group,” explains Scott. The venture has been a success, with eight companies and many individual members – including engineering, land development, geothermal and hydrogeology consulting, architecture and design, and mobile app development businesses – joining the space.

“The cool part of the story is how we brought all these people together and they were able to communicate, collaborate and bring their strengths to the table,” says Bettin. “They were able to start over again.”

Selci sums up Alberta’s overall situation as he says, “Diversification isn’t an easy feat. It’s not something you can make happen overnight, but many companies are doing it. You still have time, but it’s about time you got going!”

<http://businessinedmonton.com/featured/corporate-diversification/alberta-needs-learn-eggs-basket-fable/>

© Copyright (c) BUSINESS IN EDMONTON