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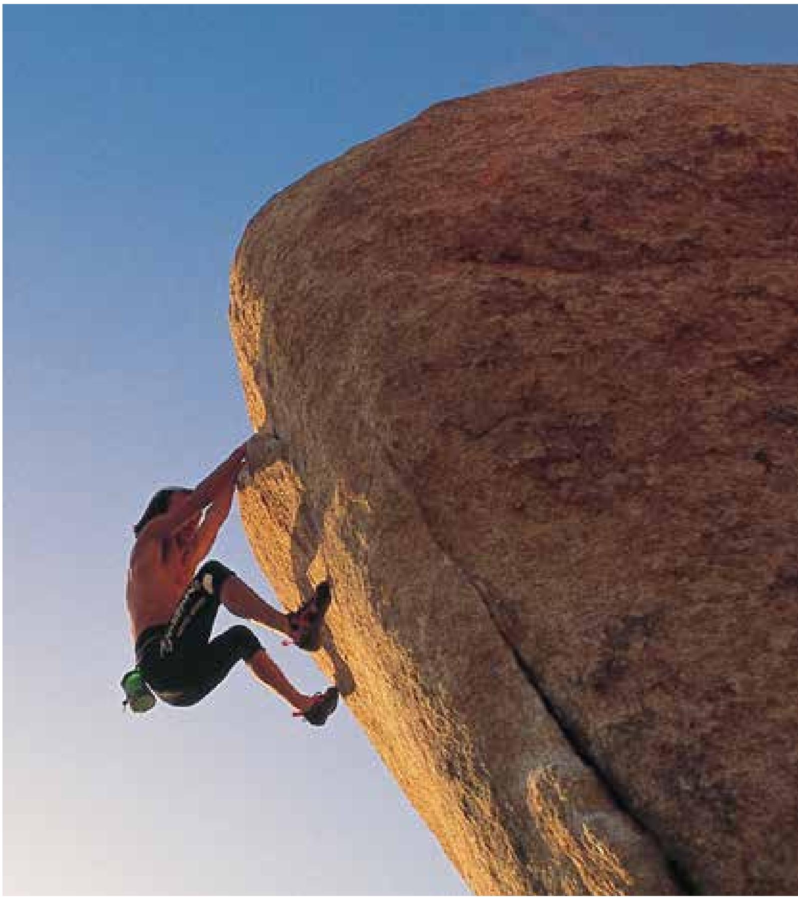

Hard times:

Been there, done that?

Gaining ground *in* volatile times

Introduction

“Please, God, give us another oil boom,” the bumper stickers implored. “We promise not to [toss] it all away this time.” Remember? We do, and what is in fact encouraging, as the price of oil took its precipitous slide below $50/barrel from $100+ in just six months, is that, last time (last boom, when oil hit $147/barrel in July 2008), we took our own advice – the range and quality of investment in the oil sands over the past few years has been extraordinary.

To wit: the Oil Sands Tailings Consortium. Suncor and Petro-Canada. COSIA. CNOOC and Nexen. And so on – big bets when times are good and (comparatively) easy.

When times are hard, however, it’s tempting to retreat – that is, retreat too far. Choices will and must be made, but it’s critical that companies don’t erase hard-earned gains or put the wrong longer- term objectives in peril. We retreated in the 1980s; thus the bumper stickers. Today we’ve already been seeing some familiar headlines about lay-offs, but it’s not too late to implement strategies and tactics that can help ensure not only survival through the low-price environment but also preparation for when prices inevitably rebound – notwithstanding that when they rebound and by how much is impossible to say.

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Once more unto the breach

The cyclical rise and fall of crude prices is, of course, no particular mystery, nor is the fact that the centre of gravity in crude markets is shifting west as combined production in the U.S. and Canada outpaces long-time heavyweights Saudi Arabia and Russia. But so, too, is this new western production significantly responsible for the current price environment, as especially U.S. production of shale created new expectations about North American energy self-sufficiency even as it dismantled old ones about peak oil.

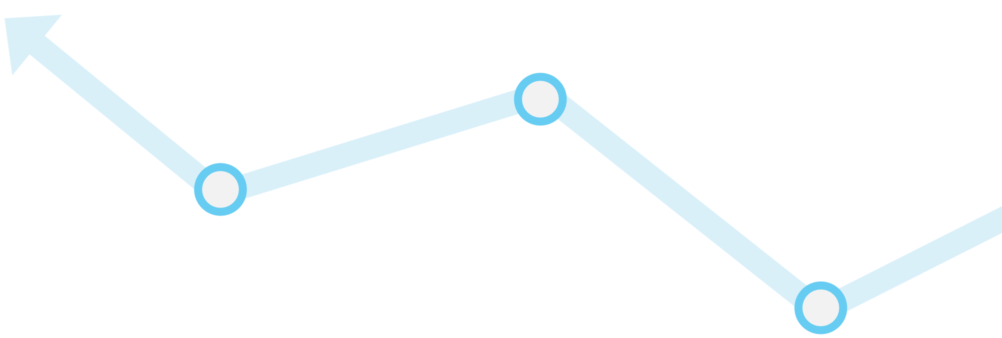
Add OPEC's November 2014 decision not to cut production (as had been SOP in such circumstances) and seemingly interminable uncertainty around new market access and the ongoing disruption is very likely to hit oil sands companies the hardest, in terms of both capital- and operating expenditures. Will prices go lower? How low, and for how long? No one can say.

Now, then, is a time for leadership – for not just being aware of fluctuating prices but anticipating them; for being prepared to be in error about important short- and long-term decisions, because it's making the decisions that matters first; and for maintaining strategy when market conditions change.

Leaders, in other words, don't follow. Leaders lead.

If that wasn't obvious enough, we anticipate some of our advice in these hard times won't be. That's good – it's not supposed to be. If those who forget history are doomed to repeat it, then the solution is simple: don't forget, and try something else.

In our view, this particular low-price environment is likely to last upward of 12 months – and to recover slowly. This, we know, is crisis territory for many organizations, some of whom will be dealing with certain issues for the first time ever. Be cautious, but resist the urge to retreat – too fast or too far. Now is a time for leadership.



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*Un*batten the hatches

But first, it's important to recognize that not all issues are created equal – managing a crisis of insolvency, for instance, necessarily becomes top priority if matters come to that. But, by and large, the overall approach will depend on a range of factors unique to each organization. There's a lot to potentially consider. The following considerations, however, are bound to apply to everyone, one way or another.

Firstly, while **cost reduction** initiatives are almost certainly going to be on the table, in general these often fail to deliver lasting results. Costs, on the whole, must be managed as a diverse portfolio of assets that support strategy, mitigate risks, enhance efficiency and run basic services. The key is in understanding what each cost contributes to your business and in being conscious of the implications of your decisions about them. Any cutting you do, for instance, should clearly contribute to competitive advantage and help identify, prevent or minimize risk – because exposure to new risk, however limited, is almost certain, and increases the less you plan. It goes without saying that cuts should also deliver unequivocally lower costs and/or speedier processes and decision-making. However, cut nothing that would negatively impact the company in normal times.

Cost recovery initiatives, meanwhile, might be an option in lieu of cutting, depending on your financial position. If you need cash right away, recovery is probably a first step. Otherwise, it's critical in hard times not to overlook the possibility that you might be over-paying in some areas, whether mistakenly or even fraudulently – the chances that you are only increasing with the number of divisions, systems, internal teams and locations involved in procurement. But careful analysis of purchasing and accounts payable data can help identify financial recoveries and opportunities to optimize the expenditures you keep.

Speaking of optimization, welcome to a future made increasingly smarter, wiser and just plain better using **data analytics**. Companies have always generated more data than they've known what to do with, and up until the past half-decade or so that's what they did – essentially nothing. But nothing is no longer an option. There's just too much data available, it grows at a near-exponential rate, and the quality of insight now being gained through close and careful analysis of it is too valuable to be ignored – or, worse, relinquished to competitors for their advantage. In our experience, for instance, companies can realize a margin improvement of 2-4% simply by applying more analysis to the supply chain data they already have. Similar gains are likewise available in other areas of the business.

Next up, **scenario planning**. Most strategic decisions are made based on the conditions that an organization sees directly in front of it. But the impact of many of these decisions may not be fully realized until time has elapsed and conditions have changed – sometimes dramatically. Scenario planning takes a longer-term view, challenging management to revisit assumptions about the future, and produces broader, more innovative, more sustainable decisions. Scenarios form a framework that can be used to make more holistic sense of conflicting or ambiguous market signals – today and as they appear over time. They also help organizations develop strategic flexibility, allowing you to take "options" in certain areas as a hedge against possible future events – thereby mitigating risk and creating the conditions for new opportunities to emerge.

Business improvement, resourcing and **waste management**, meanwhile, represent significant operating costs for all organizations. Effective behaviour and processes can not only minimize risk but also provide significant savings opportunities. Where vendors are concerned, do everything you can to avoid severing relationships with the key ones. Consider undertaking a vendor contract review for your vendors and a good strategic conversation with your partners. There is a difference between the two and missing that point will be destructive when things pick up.

They may make for uncomfortable discussions, but **fraud** and **error** typically become apparent and may even increase during challenging economic times – both at the level of the individual and companies themselves. But quantitative and qualitative assessments that isolate and analyze alleged damages can provide clear understanding of the impact of such behaviour on the organization. If anything, now is the time to be extra-vigilant about this risk in particular.

Hard times are also good times to take advantage of a number of **tax planning** opportunities that can help you manage risk and maximize shareholder value. This begins with adapting your tax strategies to the current business climate. Plan around internal debt restructuring, cross-border planning and financing, and interest rate determination – and be sure to claim all available grants and incentives, such as Scientific Research & Experimental Development (SR&ED) credits.

We often talk about this next one as a singularity, but **operational excellence** in fact covers a range of disciplines, including asset management; operations technology management; field productivity; operational readiness and risk management; regulatory, safety and environmental management; and sustainability. In addition to delivering competitive advantage, operational excellence brings together cross-functional skillsets to enhance process efficiency, reduce costs, improve customer service, accelerate response times and improve asset performance.

Similarly, a low-price environment presents an opportunity to **review short- and long-term workforce plans** and achieve a better optimization of resources across different projects, business units and functions. Workforce analytics in particular becomes increasingly important, as a deeper look at corporate and HR data can help identify cost savings and efficiencies, especially in the areas of overtime pay, productivity and employee performance. Managing labour demand has been the sector's top challenge for years; nothing about that should have changed.

Morale during a low-price environment, however, can be significantly affected for the worse. Given how difficult and costly re-hiring and re-training people can be, now more than ever is the time to consider innovative new engagement programs, revitalize internal communications, and review and improve performance management systems in order to **maximize the passion and productivity** of all employees. Everyone will thank you for this.

What goes around…

These are unmistakably hard times that are going to call for hard choices. In our view, at minimum you need to have a plan for everything – even if the plan is to do nothing about X and only slightly more about Y. It's a good time, for instance, for a company in a strong financial position to look for deals that were not otherwise available – but you must know before you act whether you want, for instance, to be diversifying or specializing.

In any case, we've seen similar price environments before, and a well-articulated response (whether to costs, operational performance, fraud, workforce issues or whatever else) will always distinguish leading companies – which are, after all, made in such times.

What will your response be?

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