



Business Insights

Information and analysis from TD Commercial Banking

Fall 2008

Is your company prepared for economic shifts?

The Canadian economy is facing some challenges. Is your company prepared? Slowing economic growth, high prices for commodities, rising inflation and a host of other factors have combined to make 2008 a challenging year for businesses.

In this environment, companies must be ready to change gears to navigate through everything from rising costs to changing customer preferences.

Here are some of the essentials for surviving and prospering in a changing economy.

Assess business strategy

Business strategies that work during an economic boom may not be as effective in times of slowing growth and rising costs. Determine where your business is most vulnerable, and focus your strategic efforts on those areas.

But do not focus only on today. As part of your strategic thinking, look for opportunities to become leaner, more efficient and more cost-effective. This will make your company more competitive when the economy recovers.

Review your product line

Are your core products and services a good fit with the current economic environment? As customer preferences change, consider eliminating unprofitable products or services and adding to product lines in other areas.



It's not always easy to pass on rising costs to your customers if competitors are riding it out.

Deal with rising prices

Slowing economies and higher input prices do not always go hand in hand. But global growth is causing inflation (in the form of higher prices for oil, agricultural products and materials) at a time when North American economies are slumping.

In this scenario, it can be difficult to pass along price increases to your customers. Determine whether your company has "pricing power" and compare what your competitors are charging.

In this issue

3
Protect your company from fraud
These controls will help you

4
Why cash flow is critical to your business
Here's how to manage it

5
Does outsourcing make sense for your business?
Weigh your business cash

6
Key economic and financial themes for 2009
From our Deputy Chief Economist

Our goal is to help you achieve yours

Continued on Page 2

Is your company prepared for economic shifts?

Continued from Page 1

Cut your costs

One way of dealing with rising input prices is to cut production and other costs. But be careful. A company can reduce capacity so much that it will not be in a position to capitalize on the next upturn. And if you cut in other areas, such as product development, this can also hurt your competitive position in the future.

Improving efficiency may be a better way to pare expenses. Also, consider substitutes for high-cost materials, or seek out suppliers that offer more attractive prices. Think about deferring nonessential items such as conference activities and non-critical training programs.

Prepare your company to capitalize on the next upturn and protect your future competitiveness.

Watch the competition

Don't forget that your company's competitors are in the same boat. That's why it's important to maintain your company's strengths. Consider investing where competitors are cutting back. And if the business is in a position to expand, buying other companies is cheaper in a downturn. You can also hire valuable personnel when a slowdown creates a buyers' market for talent.

Reach out to customers

In a more challenging business climate, a close relationship with customers pays off. Know what is important to your best customers and be prepared to focus on how you can provide products and solutions they need. ●

A shifting economic landscape

Here are just a few of the economic challenges businesses have faced in 2008. (To find out what a TD Bank Financial Group¹ economist is forecasting for 2009, see Craig Alexander's Economic Insights article on Page 6.)

RECORD OIL PRICES. With oil hitting new heights in 2008, everything transportation-related has increased in price. And because oil is a big component of manufacturing, the shock is felt everywhere.

SOARING FOOD AND AGRICULTURAL COMMODITIES. Prices for corn, rice, wheat and a host of other foods have skyrocketed. This is bad news for food-related industries.

THE CREDIT CRUNCH. The global credit crisis has plagued financial institutions, made lenders wary and resulted in tighter credit standards.

INTEREST RATE ABOUT-FACE. Inflation is resulting in rising interest rates. Central banks in North America and around the world have halted their rate-cutting trend and are holding the line on rates or increasing them.

WARY CONSUMER. Consumer confidence is plunging. In June, the Conference Board of



Rising oil prices have resulted in increased costs for everything transportation-related, putting a strain on businesses and consumers alike.

Canada reported that confidence fell to its lowest level in almost 13 years. That translates into wallet-tightening by the public and declining sales for consumer-oriented businesses.

HIGH CANADIAN DOLLAR. Although it has stabilized, the Canadian dollar remains far higher against its U.S. counterpart than just a few years ago. This continues to cause problems for manufacturers focused on the U.S. market.

Protect your company from fraud

Any company can become a victim of fraud. Whether it is the latest Internet scam or more “traditional” cheque or credit card fraud, businesses are vulnerable. Taking steps to protect yourself can save you money and your reputation.

For example, “phishing” attacks have moved into the corporate domain. Traditionally these have involved sending mass emails to consumers with the intent of obtaining personal or financial information or directing recipients to a fraudulent website. Today, phishing attacks are increasingly directed at businesses and their customers.

More sophisticated methods of telephone fraud, often using voice over Internet protocol (VoIP) telephone services, are also a growing concern. VoIP allows criminals to spoof caller ID, set up fake “customer service” reply numbers and institute illegitimate voice response systems to secure personal information. These scams are sometimes called “vishing.”

These trends will continue. But by implementing sensible controls, your company can lessen its chances of becoming a fraud victim.

PROTECT IDENTITIES AND PASSWORDS. These should never be shared with anyone inside or outside the company. Even divulging an electronic identity can be dangerous if fraudsters are able to crack a weak password.

SECURE AUTHENTICATION DEVICES. Authentication keys and similar devices should be kept on your person or locked away.

SAFEGUARD CHEQUES. Keep cheques under lock-and-key and limit access. Maintain control of cheque stock through the printing, signing and dispatch process. Audit cheque stock frequently and without warning. You may also want to limit print quantities so you don’t have surplus stock on hand.

SEPARATE FUNCTIONS. Have different people be responsible for the writing and signing of cheques, as well as the

reconciliation of bank statements.

RECONCILE ACCOUNTS. Business banking transactions should be reconciled every day. Data can be quickly downloaded and reconciled by computer. Ensure transaction behaviour is consistent with what is expected, paying especially close attention to high-volume accounts.

HAVE YOUR BANK MATCH CHEQUES. Use positive pay with payee match. Your company can transmit copies of cheque issue files to the bank. Incoming cheques can be monitored and unmatched or altered cheques discovered.

USE CAUTION WITH WIRE SERVICES. Do not communicate wire transfer information by phone or fax, especially when IDs and passwords are involved. Use an online wire payment service that offers authentication safeguards.

GUARD PERSONAL INFORMATION. Any easily accessible personal information

can be fodder for identity fraud. By impersonating company personnel, attackers can then defraud your organization.

DO SPOT CHECKS. Conduct unscheduled audits and activity checks of employees who have access to financial accounts and information. Make employees aware in advance that this is part of company policy so individuals will not feel offended or singled out.

BE ALERT FOR PHISHING. Your information technology employees or consultants should monitor for phishing activities or spoofed websites directed at your business or its clients. Make sure your clients know that you will never ask for financial information or passwords at all via phone or email.

Consult TD Commercial Banking about how our services can help you prevent fraud. Or engage the services of fraud prevention consultants for a thorough audit of your company’s fraud prevention methods and needs. ●

INDUSTRY INSIDER

Cheque Imaging Update

Starting this fall, instead of receiving your paid cheques back with your statement, you will see printed digital images of each cheque in your business account statement. These cheque images are acceptable as proof of payment and can be used in dispute settlements.

What your business needs to do

1 REVIEW INTERNAL PROCESSES. You may need to adjust some internal processes in how you manage paid cheques, such as cheque storage.

2 CONFIRM THAT YOUR CHEQUES MEET THE REVISED STANDARDS. To ensure clear imaging, your cheques must meet the revised CPA Standard 006. Any business cheques you order through TD Canada Trust (or from Davis + Henderson) conform. If you print cheques in-house or through another supplier, confirm that your software provider or cheque printer is aware of the revised standards. For more information visit www.tdcommercialbanking.com/cheques

When you’ll see this change

► **OCTOBER 2008 STATEMENTS** — accounts held at branches in Quebec, Eastern Ontario (including Ottawa), Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island.

► **NOVEMBER 2008 STATEMENTS** — accounts held at branches in British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Territories and Yukon and the rest of Ontario.

For more information, contact your Relationship Manager or visit www.tdcommercialbanking.com/chequereturn

Why cash flow is critical to your business

Healthy cash flow is a key ingredient of business success. That's why successful companies put as much emphasis on cash flow management as they do on sales and profits. In today's slowing economic climate, managing cash flow becomes even more important.

Benefits of good cash flow

Having a healthy cash flow can pay your business big dividends, through:

- ▶ More cash to put back into the business.
- ▶ Reduced borrowing requirements.
- ▶ Less need to issue new equity (which dilutes profit per share).
- ▶ Cash on hand to take advantage of business opportunities.
- ▶ Funds available to enhance shareholder value through dividends or share buybacks.
- ▶ A signal to investors that the company is in good financial condition (see sidebar).

To reap the rewards of cash flow, your business needs a strategy that focuses on managing and resolving potential problems before they get out of hand.

Monitor cash flow health

Here are some ways to examine your company's cash flow health.

LOOK TO KEY RATIOS. Pay close attention to the corporate cash flow statement. You should evaluate key cash flow ratios, such as operating cash flow, current debt coverage, cash flow to long-term debt and free cash flow. These ratios should be positive, and compare favourably with benchmarks for your industry.

SPOT TRENDS. Is cash flow deteriorating? Are cash flow ratios indicating a developing problem? Early diagnosis of failing cash flow health is essential to a prompt recovery in a challenging economy.

MONITOR ACCOUNTS RECEIVABLE. Are customers taking longer to pay? Determine where problems lie and review payment contracts.

MONITOR ACCOUNTS PAYABLE. Delays in paying bills could be a sign of cash flow problems. If the money is not there to pay, something is wrong.



Your business can benefit from a strategy that focuses on managing and resolving cash flow problems before they get out of hand.

Improving cash flow

Here are some ideas for improving cash flow:

- ▶ Offer tardy customers discounts for prompt or early payment.
- ▶ Seek more favourable terms from vendors to improve liquidity. Better payment terms may be more important than attractive prices.
- ▶ Reduce inventories. Every dollar in inventory is a dollar your company does not have in cash.
- ▶ Use technology. State of the art payment and receivables software and technology can help better manage cash flow.
- ▶ Plan ahead. Project revenues and expenses at least a year ahead. Identify your worst months for cash flow and plan for them.
- ▶ Renegotiate long-term loans. Better payment terms can free up cash. ●

A closer look at your company's cash flow habits can reveal important signs of good corporate health.

What is free cash flow?

Your company's investors want to know that your business is in good shape. Increasingly, that means focusing on "free cash flow."

Free cash flow is operating cash flow (cash from operations) less capital expenditures. In other words, it is the money earned from operations that can be set aside as corporate "savings."

Why is it so important to investors and analysts? Because healthy free cash flow means a company is more able to pay dividends, pursue opportunities, make acquisitions, build shareholder equity, pay down debt and maintain cash reserves that can help meet future challenges.

In other words, healthy free cash flow allows a company to do all the things investors like a company to do. That means a higher potential return on investment.

Does outsourcing make sense for your business?

There are always two sides to consider before opting to outsource a service or business function. Weigh your options to avoid the unexpected.

Outsourcing work that might otherwise be performed in-house has the potential to cut costs for your business. It can also free up resources that can then be used to bolster your company's core competencies.

But deciding whether and what to outsource is a major decision. It is important to consider the potential advantages and disadvantages of outsourcing before deciding what is right for your company.

How outsourcing can help

- ▶ **REDUCED CAPITAL SPENDING.** When business processes such as information technology or payroll are outsourced, a company does not need to purchase expensive equipment or software. There is also no need to constantly introduce or update technology.
- ▶ **INCREASED CASH FLOW.** Money not spent on in-house services and equipment is available for other areas of the business.
- ▶ **REDUCED PERSONNEL REQUIREMENTS.** Hiring needs are reduced and existing staff can be reassigned to the core business. Office space requirements can also be pared back.
- ▶ **INCREASED FLEXIBILITY AND EFFICIENCY.** By relying on third-party professionals, a company can easily and quickly ramp up services when demand requires.
- ▶ **ACCESS TO EXPERTISE.** Third-party providers may have expertise your company does not have, and may be more current on the latest developments, technology and processes.
- ▶ **POTENTIAL TO IMPROVE QUALITY OF SERVICE.** Improved service can increase customer satisfaction.

Drawbacks to outsourcing

- ▶ **LESS CONTROL.** Managing an outsourcing service provider can be more difficult than managing your own employees and processes. This can lead to concerns over quality control.
- ▶ **SECURITY AND CONFIDENTIALITY.** Outsourcing means that confidential information can be



Working with an external team requires ongoing review.

passed along to third parties. This may include payroll details, customer information and other data. If your company deals with highly sensitive data, outsourcing may not be the best option.

- ▶ **POTENTIAL LEGAL OR COST LIABILITIES.** To resolve any problems that may develop with outsourced functions, you may incur extra costs, including legal expenses.
- ▶ **OUTSOURCING MAY NOT BE CHEAPER.** This can be the case for companies that already have specialized in-house talent or modern facilities. Conduct a careful cost analysis before making a decision.
- ▶ **EMPLOYEE MORALE.** Staff reductions that accompany outsourcing can hurt morale and performance.

There are other considerations that will influence a company's outsourcing decision. One of the key factors is whether your industry is well served by potential outsourcing providers.

And be aware that if problems arise with outsourcing, your company will have to take quick action. Be sure to have an exit strategy. For example, if an outsourcing provider goes out of business, your company will have to move quickly to a new provider or take the process in-house.

A company might become dissatisfied with its provider's performance. For that reason, ensure that the right to terminate the relationship is clearly defined in the contract.

Keep in mind that after a lengthy period of outsourcing your company may know little about the outsourced function, and may need to hire new or retrain existing personnel to do the job internally. ●

Key economic and financial themes for 2009

BY CRAIG ALEXANDER, VICE-PRESIDENT AND DEPUTY CHIEF ECONOMIST, TD BANK FINANCIAL GROUP



Many Canadian companies build their business plans for the next year in the fall, so it is a good time to identify the main economic themes for 2009.

The dominant economic story is the continued weakness in the U.S. economy, which is living with the fallout from a burst housing bubble and a credit crunch brought on by poor-quality housing loans.

The good news for Canadian exporters and for financial markets is that the U.S. economy should show some signs of improvement next year. The bad news is that the economic recovery may prove quite gradual.

What's in store for the loonie?

Exporters will be glad to hear that the Canadian dollar is forecast to lose some ground in 2009, averaging close to 90 U.S. cents. However, the level of the exchange rate will remain lofty, which is a challenge for exporters but a welcome outcome for importers.

The dip in the loonie is expected to

reflect a stabilization in the U.S. dollar and a pullback in commodity prices, related to softer global economic growth. However, the high level of the exchange rate is consistent with prospects for elevated commodity prices. As a result, businesses should not expect significant relief from energy and other raw material costs in 2009.

Canadian economy in good shape

The Canadian economy will face headwinds from the weakness in the U.S., but the Canadian domestic economy is expected to remain solid, supported by low unemployment that will keep consumer wallets open.

The tight labour markets could be an issue for some firms, as competition for skilled workers will remain fierce. The dominant domestic economic story is likely to be a long overdue cooling in Canadian real estate markets.

After experiencing very modest growth of close to 1% in 2008, the Canadian economy is forecast to expand by just under 2% in 2009 — well below the historical average. In anticipation of this development, the Bank of Canada cut interest rates in early 2008, acknowledging that it takes 12 to 18 months for lower



While our dollar is forecast to lose some ground in 2009, the high exchange rate will still challenge exporters.

borrowing costs to have their full effect.

Looking ahead, interest rates are likely on hold for the rest of 2008, although the Bank of Canada may raise interest rates in 2009. The big question is what happens to inflation. Up to this point, high energy prices have not led to a significant acceleration in inflation. So long as this continues, and we think it will, the Bank of Canada can gradually raise interest rates once there are signs of stronger economic conditions. ●

- UNDERSTANDING - EXPERTISE - SOLUTIONS - COMMITMENT -

This information is brought to you by The Toronto-Dominion Bank for informational purposes only. The Toronto-Dominion Bank will not be liable for any damages or losses in any way related to this newsletter or any information contained herein.

The information in this newsletter is current as at August 31, 2008.

¹ TD Bank Financial Group means The Toronto-Dominion Bank and its related companies that provide deposit, investment, loan, securities, trust and other products and services.

© 2008, The Toronto-Dominion Bank. All rights reserved.



Mixed Sources
Cert no. SW-COC-001700
© 1996 FSC

TD Commercial Banking