

CANADIAN BUSINESS

EDUCATIONAL FOCUS

Issue: October 26, 2009

Canadian Business Educational Focus is published for educators subscribing to the *Canadian Business* Educational Program

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Grading of Material Difficulty:

Level 1 = introductory
Level 2 = intermediate
Level 3 = advanced



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Canadian Business Educational Program

Director Brinda Luckoo
Manager Monica Kucharski
Assistant Manager Laura Colero

One Mount Pleasant Road, CMG 8th Floor, Toronto, Ontario M4Y 2Y5.

Toll free line: 1-800-668-1951 or call (416) 764-2017

Email: monica.kucharski@rci.rogers.com

www.rm-education.com

LESSON PLAN

Canadian Business Educational Focus, October 26, 2009 Issue

Course Applications: Real Estate / Economics

Difficulty Level: Level 1

Article: “Back from the brink,” p. 27

Article Summary: After a year of languishing in a slump, the condo market is enjoying a revival. Several important projects, shelved previously because of financing problems, are back in development. Low interest rates have attracted first-time buyers who bought out lower-end condo inventory boosting consumer confidence. Now, the luxury condos are also being swiftly sold.

Outcomes

- To examine the reasons why the condo market is in a revival
- To observe real estate developers’ challenges and strategies
- To make the connection between the state of the real estate market and the economy at large

Terminology & Concepts

hotel-condo: A building used as both a condominium and a hotel.

financing: An transaction that provides funds for a business.

went from frothing to comatose: Went from wild excitement to nothing.

global economic meltdown: When all sectors of the economies around the world are experiencing negative growth.

high-end market: A market with high-priced, high-quality products.

hibernation: A state of complete inactivity.

revival: Bringing something again into activity and prominence.

risky developments: Development projects with unstable financing or few pre-sold units.

tony: stylish, high-toned, upscale

shelved: put on hold

condo-retail tower: A building that has condo units above and retail stores below.

supply: An amount of something available for use.

bode: Indicate by sign.

interest rates: The amount of money charged as a fee for lending money or the price of borrowing money.

low-end inventory: Available condo units that are less expensive and have fewer amenities.

add more height and residential density: Make the building higher and with more units.

swish: classy: elegant and fashionable

occupancy date: The date when the units can be occupied.

pre-sale buyers: Those who bought before the property was officially available for sale.

Comprehension

- 1) Last fall, Canada's real estate market went into _____.
- 2) In _____, construction of the glitzy Ritz-Carlton hotel-condo stalled, and the _____ for the Jameson House luxury-condo collapsed, so this project was shelved as well.
- 3) In _____, the intense excitement over the proposed 80-storey condo at _____ evaporated when _____ collapsed.
- 4) But just a year later, the condo market is _____.
- 5) After its financier, Lehman Bors, went broke, the Bloor & Young site was bought by the Toronto developer, Great Gulf Group, which is planning to _____.
- 6) According to John O'Bryan, vice chair of commercial realty, condo sales are _____.
- 7) Good sales at the affordable end can only bode well for the _____, says Brad Lamb, a top Toronto broker.
- 8) Brad Lamb believes that _____ have caused first-time buyers to come back to the market. These buyers bought up all the _____, so that now people are buying _____.

Analysis / Assignments

- 1) Why did the condo market go into a slump?
- 2) How did consumer confidence for buying condos bounce back? Why is consumer confidence pivotal to a booming condo market?
- 3) What kind of problems can builders and property developers run into on a development project?
- 4) What strategies did some builders/developers use to get shelved projects off the ground again?
- 5) Why is Daryl Simpson, Bosa's VP of marketing and sales, confident about the development of more luxury condos? What stats/indicators does he use to back up this sense of confidence?
- 6) The state of the real estate market—the quantity of new buildings/houses, sales volumes and sales rates—are often used to predict or evaluate the state of the economy in general. Why do you think that is?
- 7) When condominiums and houses are not being constructed, what is usually the reason for it? How does a depressed construction business segment affect other business segments? How does it ultimately affect the state of the economy at large and the average working Canadian?
- 8) In what ways are interest rates crucial to the health of the real estate market? (As enrichment, discuss what started the financial crisis last year which led to the current global recession.)

Comprehension Answers

- 1) a deep-freeze 2) Vancouver; financing 3) Toronto; Young & Bloor; financing 4) back in action / reviving
5) streamline the site 6) way up along the whole spectrum of the market 7) luxury market 8) low interest rates; low-end inventory/cheaper units; high-end inventory

TUTORIALS

Course Applications:	Management / Business Strategies / Mergers & Acquisitions/ Innovation /Technology
Difficulty Level:	Level 2
Article:	“How Google really does it”, p. 54
Article Summary:	This feature article takes a look at the management of Google, suggesting that the key to this much admired and influential company’s success is not so much its internal inventions as its astute acquisition strategy—acquiring smaller companies with promising, nascent technologies and developing them further. “From its modest start as a search-engine research project at Stanford University in the mid-1990s, the Google universe has expanded exponentially with new products and services. Google is well on its way to becoming perhaps the most influential corporation on earth—reshaping entire industries and changing the way people think about company management. But the popular image of Google as a hotbed of engineering genius and dynamic thinking stands in stark contrast to its record as a voracious acquirer of small firms and nascent technology.”

Comprehension / Discussion

- 1) **While Google enjoys a tremendous reputation for invention and technological discovery, what does the article argue is the real key to its success?**
 - Many of the services that have generated the biggest buzz among users in recent years, and helped drive the company’s stock market value to such phenomenal heights, didn’t originate from its engineers’ brains, but from its acquisitions of smaller firms with promising nascent technologies. A whole lot of the Google products we’re familiar with came into the company through acquisitions rather than internal development. The real secret to Google’s success is that it is a company that understands the possibilities of technological change, and where to look for the small companies with big ideas that will change established business models.
- 2) **What is Google’s typical acquisition strategy?**
 - The acquisitions tend to involve smaller companies, smaller teams, with really innovative people and technology. Sometimes acquisitions are used to fill gaps in Google’s existing line of services, but more commonly the deals are opportunistic in nature.
- 3) **What is Google Voice? How does Google Voice exemplify Google’s acquisition strategy?**
 - With the Google Voice service, users will be able to receive calls on their work, home and cellphones—as many as six different lines—through one number via the Internet. It comes with free long distance, free voice mail, and can even transcribe voice mails into text. But while Google has been hailed for revolutionizing the telco industry with this service, the technology was originally launched in 2005 by a company called Grand Central. Two years later, Google acquired the startup for an estimated US\$45 million.

4) How did Google's acquisition of Where 2 Technologies and Keyhole benefit the company? In what way is this acquisition typical of Google's business management model?

- In 2004, Google bought Where 2 Technologies and Keyhole, giving it the foundation for Google Maps and Google Earth. The company has since further developed this technology with features like Street View, which will see a fleet of cars equipped with special 360-degree cameras photograph every street in the world. It's an example of how Google is good at taking acquired technology to the next level.

5) How does Google encourage in-house innovation?

- Employees are given a day every week to brainstorm their own ideas, called innovation time off. The company has adopted a rule that dictates at least 10% of its energy and resources must be devoted to completely new undertakings and has launched "innovation reviews" where managers present their underlings' brightest ideas directly to company founders, as well as CEO Schmidt.

6) Despite the management's efforts to stop this perception, why does Google have the reputation as an advertising company?

- Despite its foray into so many different sectors, a whopping 97% of Google's revenues still come from web- and search-related ads. And for all the takeover deals it's done, Google has yet to come up with an alternative revenue stream.

Analysis / Assignments

- ➊ In his book, *What Would Google Do?*, Jeff Jarvis advises the business community that, "Google's lesson is clear. Make innovation your business." Does the article support or argue against this statement? How does the article qualify this assertion?
- ➋ What management philosophy is behind Google's success? What are Google's key strengths as a company?
- ➌ What examples does the author of this article cite to support his theory about the reasons for Google's success?
- ➍ The author of this article suggests that despite many people viewing Google as a "beacon for success in the knowledge economy," the company is actually a lot more like "that other American tech giant, Microsoft, than a new breed of company." What parallels does he draw between these two companies?
- ➎ "I think that Google is actually not an advertising company," said the former Bell Canada senior executive, who joined Google last year. "Google is an innovation company, in which it happens to have a core business today that relies on advertising for its revenues." Do you agree or disagree?

Course Applications:	Financial Management, Restructuring, Media
Difficulty Level:	Level 3
Article:	“Canwest’s long good-bye”, p. 22
Article Summary:	This article discusses the financial crisis at Canwest Media—a media conglomerate founded by the legendary entrepreneur Izzy Asper who started the company back in 1975 with a single television station. By latest estimates the company—today controlled by the Asper family— owes close to \$4 billion, and has been in negotiations with its creditors trying to recapitalize the company and stave off bankruptcy proceedings. Canwest has been selling its non-core assets to raise capital, but the money raised is not nearly enough to cover its debt obligations. Next on the chopping block might be its many newspapers, although given the current economic climate and depressed ad sales, buyers might not be easy to line up. The outlook for Canwest is difficult to predict, but most observers agree that “when the smoke clears, the Aspers will have lost control—a terrible, yet common, aftermath of excessive borrowing.”

Comprehension / Discussion

1) Discuss/define the following terms:

line of credit: An agreement negotiated between a borrower and a lender establishing the maximum amount of money against which a borrower may draw. The agreement also sets out other conditions, for example, how and when the money is to be repaid.

corporate bond: Debt instrument issued by a corporation to raise money in order to expand its business.

leverage: Investing with borrowed money as a way to amplify potential gains (at the risk of greater losses).

bankruptcy: A legal proceeding, which offers protection from creditors, if one is unable to pay debts.

clemency: leniency and compassion shown toward offenders

recapitalization: An effort to reorganize an existing company and find new sources of capital for that company.

multiple-voting shares: Dual-class share structure, which gives the founders multiple votes, allowing them to raise money, and maintain control.

bondholder: A creditor that owns bond certificate of a corporation or government issuer, and is entitled to the interests and principal repayment of such debt security.

monetization: The process of converting something of value into money. For example when a studio sells a film they are monetizing their product.

default: Nonpayment: loss resulting from failure of a debt to be paid.

secured debt: Loan in which the borrower pledges some asset as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral — in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to satisfy the debt by regaining the amount originally lent to the borrower.

2) How leveraged is Canwest? Why is this high leverage especially hazardous for this company?

- As of its last reported quarter, ended May 31, the various units of Canwest Global Communications owed a combined \$3.7 billion through bank lines of credit and corporate bonds.
- High leverage is particularly hazardous for a company that derives more than 80% of its revenue from advertising, which is notoriously cyclical. As advertisers started slashing budgets earlier this year, two Canwest subsidiaries stopped making scheduled debt payments. That placed the family business at the mercy of creditors, who could demand repayment and topple it into bankruptcy proceedings.

3) How has Canwest been able to stave off bankruptcy proceedings so far?

- The company has sold some of its assets—it sold its stake in the Australian TV network, Ten, Ten, for about \$640 million. Previously, it disposed of a slew of minor assets, including struggling Canadian television channels, Turkish radio stations and *The New Republic*, an American political magazine.
- In the meantime, Canwest has subsisted on a series of biweekly clemencies, during which negotiations with lenders continued toward recapitalizing the company. Typically, lenders won't give a company this much latitude. What's different here is the fact that the company can offer some voting control in a recapitalization—the Asper family controls the company through multiple-voting shares.

4) What other assets could Canwest sell to raise capital? How much could this asset divestiture raise?

- Canwest's newspaper chain is Canada's largest, with 13 dailies (including the *National Post*, *Ottawa Citizen* and *Vancouver Sun*) and 26 community newspapers in British Columbia. In July, TD Newcrest analysts Scott Cuthbertson and Michael Elkins guessed that the publishing assets might be worth somewhere between \$750 million and \$1 billion, far short of the debt outstanding. It would also be difficult to find a buyer—newspapers everywhere are suffering financially, with circulation falling by about 2% each year, and advertisers abandoning papers in increasing numbers for online and other media.
- Canwest could also sell its specialty cable channels like National Geographic, Slice, History Television, Food Network and Showcase. Unlike the conventional stations which depend on advertisers, these generate subscription revenues, so other media companies could be interested in buying them. However, Canwest co-owns most of these properties through a complicated arrangement with Goldman Sachs, the investment bank, which might complicate any divestiture.

5) What is the outlook for Canwest Media?

- A successful recapitalization seems within reach for Canwest Media; failing that, a “pre-packaged bankruptcy,” in which management and creditors agree on a plan before applying for court protection under the Companies' Creditors Arrangement Act, so as to emerge with a reorganized company quickly and cheaply.

Analysis / Assignments

- ➊ Why is Canwest in such a dire financial situation? What is the status of the company's finances?
- ➋ Why is the fact that the Asper family command Canwest through multiple-voting shares, a bargaining chip in its negotiations with its creditors? Refer to Canwest's sale of its stake in the Australian television network, Ten, in your response.
- ➌ According to the article, a successful recapitalization seems within reach for Canwest Media. Why?
- ➍ What is this article implying about advertiser-reliant media companies and debt?
- ➎ At press time, Canwest was still in negotiations with its creditors. An important announcement was released on October 7th. What did it say about Canwest?

Course Applications:	Economics
Difficulty Level:	Level 1-2
Article: Article Summary:	<p>“Demographics”, p. 108</p> <p>This article weighs the effect of Canada’s shifting demographics on our economic future. While Canada’s birth rate has been falling since 1950s, and immigration levels have not been sufficiently high to compensate, the oldest baby boomers—a significant proportion of our population—will begin to retire in 2011. These demographic pressures will lower governments’ tax revenues because they will result in a decreased work force, while raising their costs because of increased health care costs, pensions, and old-age benefits. Compounding this looming demographic bill is Canada’s already substantial debt, which is growing as a result of economic stimulus program.</p>

Comprehension / Discussion

1) What demographic shift will occur in Canada in 2011?

- The oldest baby boomers, a huge portion of Canada’s population, will reach a retiring age in 2011. And, as Canada’s birth rate has fallen steadily since the 1950s, our “providing ratio”—the number of working-aged Canadians relative to those over 65—will fall.

2) Why is this shift worrying Canada’s finance ministers?

- As retirees begin outnumbering the young people replacing them in the workforce, our tax base will be eroded. Meanwhile, government spending will rise. Although an aging population spends less on education and family benefits, it spends much on health care. Pension costs and old-age benefits will also mount. This will inevitably result in a fiscal squeeze.

3) According to William Robson, president and CEO at the C.D. Howe Institute, what will be the extent of the costs incurred by the government because of this demographic shift?

- In a report published in January, Robson arrived at a liability of \$1.5 trillion over the next 50 years. Health, education, and elderly and child benefits presently run about 15% of GDP; Robson says they’ll increase to more than 19% by 2056. In terms of today’s economy, that would represent about \$68 billion in additional spending each year, or \$3,100 per worker.

4) Why is the timing of these demographic pressures particularly unfortunate?

- At the end of fiscal 2008, our federal debt stood at \$458 billion, but that was before the federal government pumped billions of dollars into the economy to combat the recession. We’ll be paying for it even as we should be saving for the demographic bills that are coming.

Analysis / Assignments

- ❶ During the mid-1990s, our national debt peaked at more than \$562 billion, or more than 70% of GDP, which was also a dire situation, but Canada was able to turn it around. What helped the economy to turn around then?
- ❷ “There are currently five working Canadians for every person above 65, but that’s expected to dwindle by half between now and 2040.” What will be effects on the economy of this trend?
- ❸ What measures should be in the works to counter the effects of the demographic shift on our future economy? Consider the effects on the government, social programs, the economy, and the people.