



Preparing for Recession, Planning for Growth

No two recessions are the same.

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They have many root causes and come in many forms. But there are ways to mitigate the pain and still make the necessary investments to drive longer-term growth and build organizational resiliency.

In the recent KPMG Global CEO Outlook survey, 92 percent of CEOs at Canada's biggest corporations expect a recession within the year. In separate research, KPMG in Canada surveyed 503 small- and medium-sized businesses (SMB) across Canada and found that two thirds also expect a recession.

While most, irrespective of company size, believe it will be mild and last three to six months, almost two thirds (63 percent) of large-company CEOs and 52 percent of SMB leaders say that a recession would upend their anticipated three-year growth plans.

As a result, many have taken steps to batten down the hatches. They have raised prices, trimmed costs, implemented hiring freezes or laid off workers, and postponed digital transformation plans. The risk of course is cutting too deeply or tapping the breaks too hard, making it difficult to not only take advantage of opportunities when they arise but ramp up for a recovery. At worst, it puts them behind the eight-ball compared to more agile competitors and digital leaders.

In some instances, business leaders have had little choice but to delay or postpone digital plans after pushing forward too hard during COVID to adjust to a virtual environment.

Nearly 70 percent of CEOs at the helm of large Canadian companies (with more than \$1 billion in annual gross revenues) say they need to address employee burn out

before continuing their digital transformation journey. A similar percentage are pressing pause to manage the associated risk and compliance aspects and six in 10 are doing so because they lack the skilled talent to manage the strategic and operational rollout.

SMB leaders acknowledge that if they don't invest in digital technologies, they run the risk of losing their competitive edge. They attributed their digital journey challenges to multiple factors including cost, not having the proper skillsets, and deciding on the right technology. There are also workforce challenges. Well over half (57 percent) said they are finding it difficult to recruit engineers, software developers, and data scientists, and 53 percent are considering recruiting from other industries or countries to fill the gap. This is no different in the aerospace and defence industry.

Achieving sustainable efficiencies

Seven in 10 SMB leaders said the main goal of their technology investment is to reduce their operating costs.

While operational efficiency should always be top of mind, cost optimization to ensure stability and fund future investments, such as digital transformation and customer experience, is of paramount importance with the likelihood of a recession as well as continued geopolitical uncertainty on the horizon.

The current environment provides an opportunity to evaluate overall efficiency through what is known as a 'rapid assessment exercise' that identifies inefficiencies and unnecessary complexity in the organization's operating model. Through 'value realization', companies can uncover sustainable efficiencies in how the business operates and how work gets done.

It's not only about cutting costs solely to increase profit margins. It's also about achieving operational excellence by identifying and implementing efficiencies that are sustainable, that is, they last. This is hugely important in a highly competitive industry like aerospace and defence in which winning and fulfilling contracts can hinge on price.

And, when companies attain sustainable efficiencies in their operations, the cost savings can be redeployed to support more strategic initiatives. That means investing in skilled labour and/or the digital tools and technologies that distinguish leaders from the pack.

Every dollar in cost savings counts when the economy turns south. And every dollar in cost savings in good times helps build resiliency that much more.

Eight in 10 CEOs at large Canadian companies told KPMG they are placing more capital investment in buying new technology, up 12 percentage points from last year.

When SMBs were asked what their most-important strategy is to achieve their three-year growth objectives, investing in digital technologies came second only behind organic growth, defined as investments in innovation, research and development, new products, and recruiting talent.

From improving data and analytics capabilities and visibility and traceability in supply chains to investing in additive manufacturing, connected machinery, more automation, or experimenting with augmented reality and the metaverse, the age of digital technology is marching forward at a fast pace.

That in and of itself requires a shift in mindset.

Peter Drucker said it best, "The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic."

-30-

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