

# PIVOT



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**DATA IS THE WORLD'S MOST VALUABLE CURRENCY...**

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Lisa Zamparo, CPA and founder of the Wellth Company, at Toronto's Make Lemonade co-working space



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## BIT BY BIT

With a combination of current and new skills, CPAs will thrive in the data-driven economy

BY JOY THOMAS

**Big Data** presents CPAs with big opportunities. The torrent of digital information flowing through our economy represents an immense source of future growth and value creation. To fully leverage these opportunities, we must establish governance, valuation and standards frameworks. Who will collect the data, own it, verify it—and how? Only once these and other questions are addressed will entrepreneurs, companies and investors be able to innovate and compete to the fullest extent.

Unsurprisingly, one of the findings of CPA Canada’s Foresight process—a series of roundtables and online consultations meant to define the future of the accounting profession—is that CPAs should play a key role in answering those questions. In particular, the profession needs to seize the opportunities presented by “data value chains.” As analytics expert Michel Girard explains on pg. 28, data value chains encompass a wide range of players, including data

scientists, engineers and analysts. Professional accountants are well positioned to work in this rapidly evolving space because we possess an abundance of experience marshalling data to unlock insights, tell stories and provide assurance within the context of ethical and regulatory systems.

Since we began to focus on our role in data, I have been asked frequently whether CPAs will need to retrain or expand our skills. Do we need to learn data science, programming or analytics?

## THE ACCOUNTING PROFESSION NEEDS TO SEIZE THE OPPORTUNITIES PRESENTED BY DATA VALUE CHAINS

CPAs will not need to be data scientists, but we will need to understand the science of data. As the Foresight Phase I report states, we should think of data governance and data value creation as the domains where CPAs can “play.” To get there, we also need to have a broad conversation about “how to play”—that is, addressing the skills and competencies CPAs will need to provide our insight to data value chains.

While the CPA Competency Map was revised in 2018 to reflect additional skills required for data analytics and information systems, a new version,

to be released in 2021, will go further. In fact, we’re already applying the conclusions from Foresight’s unique consultations and visioning exercises to our professional learning processes.

There’s no doubt our profession faces a learning curve. Technologies like machine learning and blockchain—both of which rely on data—are transformative, complex and disruptive. And the pace of change is daunting, not just in the realm of financial management but across a wide range of sectors.

It’s important to remember that CPAs already possess many of the professional attributes that will allow them to thrive in emerging data-driven economies. As Girard points out, data value chains bear key similarities to other, more established value chains in natural resources, agriculture, manufacturing and beyond—sectors in which CPAs already play vital roles.

CPAs have long been versed in ensuring that value is measured consistently and that standards are adhered to. Regardless of sector, we are trained to apply our business acumen to analyses of financial information and ensure that regulatory and governance standards have been met. We now need to understand how digital information flows into companies,

how to measure that data, and how to leverage those insights to deliver value for our employers and clients.

These new digital competencies—in combination with the skills that members already possess—will allow CPAs to think holistically about data value chains and provide strategic advice. At the moment, the various pieces of these value chains are often siloed, which means there’s a pressing need for professionals who can provide necessary oversight and understand how all the disparate pieces fit together. That’s a void CPAs can fill. ♦

# PIVOT

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# DLGL



### Better together

I am and always will be a deep introvert (“Open and shut,” September/October 2019). Yet as a young chartered accountant, I befriended several workplace extroverts. It was not long until we heard, “You can’t do that!”—after we already had. I easily woke up to answers extroverts do not, while these extroverts easily implemented them in the outside world. Extroverts and introverts both do best when we choose to do together what we cannot do apart.

—Harry Mathews, CPA  
Cambridge, Ont.

### Honest work?

Thank you for “Scout’s honour” (September/October 2019), an interesting article about lying as a positive attribute of a job candidate. The piece caught my attention and had me nodding along as I remembered various workplaces where management would appreciate someone who could bend the truth to benefit the company.

Where I saw a disconnect was in singling out accounting as a profession in which deceptive behaviour would not be appreciated. While I hope that all CPAs have high ethical and moral standards, make no mistake that our profession is pressured by management. At its most basic, this might be a direct ask to fudge the numbers. Other requests might include bending policies or making other changes that improve the financial situation—or perceived financial situation—of the company.

We don’t need to look far or hard in our industry to find obvious situations where CFOs or auditors have been pressured to make poor decisions because the company would benefit.



A roundup of frauds, including a CRA hacker and a worker who tried to expense a live octopus.  
—@CPACanada

We caught the guy with the live octopus, but the \$1.6 trillion flowing out of the country? Oh well.  
—@Kenton Doerksen

Lying, or misrepresenting situations, may benefit the person and company in question, but it doesn’t help the accounting or auditing industry. We shouldn’t believe that business and political leaders won’t look for an accountant or auditor who might be willing to bend the truth, nor should we think that our industry is above being subject to dishonesty as a part of the job.

—Peter Browne, CPA  
Halifax, N.S.

### A breakthrough

Thank you so much for the cover story, “Meet Michael” (November/December 2019). I never thought I would see an LGBT story on the cover of an accounting magazine. I don’t know if you realize what a breakthrough this is. You have presented Mike’s story in such a positive light, emphasizing how understanding and accepting everyone in his life seems to be. I can tell you, even in 2019, this is not always the case. There have been many days when I thought I was the only gay person in the profession. When I landed my first job as a staff accountant in public practice, I was determined not to be invisible and certainly not to hide in the closet. I was on the job one hour when my supervisor pulled me aside and said, “I’ve always disliked gay people because I thought they would give me AIDS.” Yes, this was a mere 13 years ago. Reading positive stories like Mike’s can only help things continue to change. Thank you for making me feel visible.

—Peter Zednik, CPA  
North Vancouver, B.C.

### Proud parent

As a CPA and parent of a trans child, I was delighted to read “Meet Michael” (November/December 2019). A transition is the most emotional and physical experience for both the person and their family. I admire Mike for having the courage to do so, and kudos to Deloitte for giving him the resources and support.

—Maggie Harker, CPA  
New Westminster, B.C.

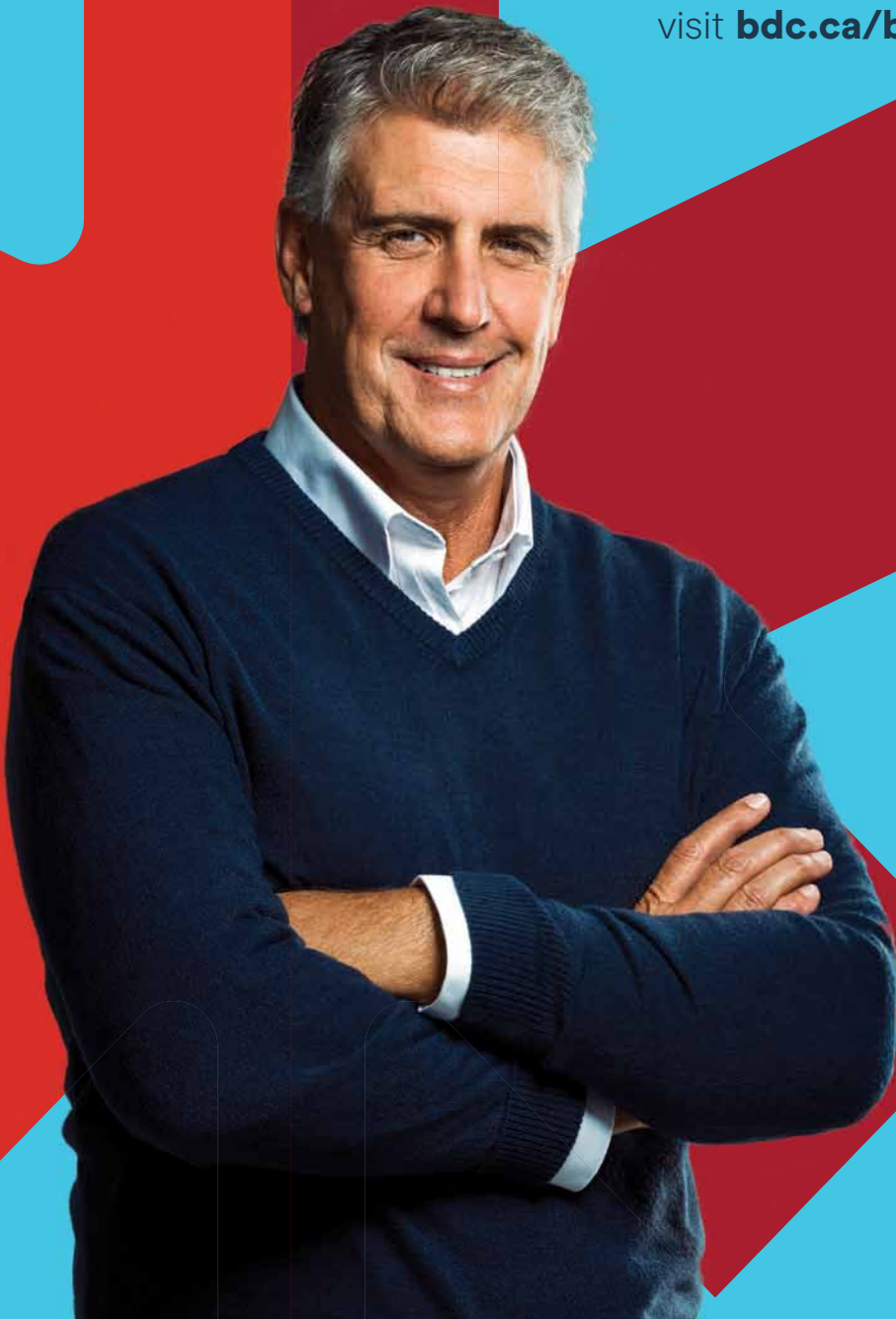
### WHAT DO YOU THINK?

Send your letter to the editor to [pivot.letters@cpacanada.ca](mailto:pivot.letters@cpacanada.ca) or to 277 Wellington St. W., Toronto, ON M5V 3H2. Letters may be edited for length and clarity.

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# FIRST IN

## BURNING ISSUE

# CITY OF THE FUTURE?

Data is the fuel that powers Sidewalk Labs' smart-city ambitions. But who will control it? **BY LARA ZARUM**

A new community proposed for Toronto's waterfront promises a smorgasbord of smart-city technologies. Pitched by Google subsidiary Sidewalk Labs, the plan to develop a 12-acre portion of neglected waterfront land dubbed Quayside involves sensors and cameras tracking pedestrian and traffic movement; determining curb space available for bikes, trucks and rideshare vehicles; and measuring everything from the volume of trash in garbage bins to local weather patterns to tenant turnover rates. It almost sounds like science fiction. But the vision is real—as are concerns around data governance.

The data aspect of Sidewalk's pitch poses a host of questions that Canada's current privacy laws do not adequately address. Jim Balsillie, a CPA and the former co-CEO of Research in Motion, has described data governance as "the most important public policy issue of our time." He and others have called for a national data governance strategy that will ensure Canada takes advantage of new technologies powered by data while protecting citizens' right to privacy and control over their information. Sidewalk Labs' endeavours in Toronto are a high-profile test case in how Canada can manoeuvre through this minefield of interests.

Sidewalk Labs formally proposed the creation of an "urban data trust" in the summer of 2019, when it released its 1,500-page master plan. The document suggested private and public partners would manage the data collected from Quayside's innovations. According to Alyssa Harvey Dawson, head of data governance at Sidewalk Labs, this independent trust, rather than a government agency, would "approve and control the collection of, and manage access to, urban data originating in Quayside."

This idea drew criticism from Ontario's information and privacy commissioner, Brian Beamish, who pointed out that provincial and municipal laws regarding privacy and access to data were woefully out of date—and that a robust regulatory framework was a necessary precursor to implementing

Sidewalk's ideas. By Oct. 31, 2019, Sidewalk and Waterfront Toronto, the tri-government agency spearheading the city's waterfront development, had reached an agreement: the data collected at Quayside would be treated as a public asset, and a newly created public agency—rather than an independent trust—would house this data. Sidewalk Labs has agreed to waive proprietary access to the data and act only as a vendor.

Kristina Verner, Waterfront Toronto's vice president of innovation, sustainability and prosperity, says the Quayside project provides a case study for governments to consider as they work to modernize current legal frameworks regarding digital sovereignty—the principle that citizens and not tech companies should control data that is collected in the public sphere. "It's a bit of a policy frontier," she says. Verner sees the Quayside plan as a chance to have important conversations about data and consent. "This project can actually reclaim control for individuals and groups that at this point are a bit disenfranchised from the whole discussion about how their data is being collected and used."

## QUAYSIDE SOUNDS LIKE SCI-FI. BUT IT'S REAL—AS ARE CONCERNS AROUND DATA GOVERNANCE.

Citizens benefit from smart-city technology in numerous ways, chief among them environmental sustainability. Barcelona, for example, has used data to build a park irrigation system that employs sensors to remotely determine and control how much water is needed in a given space. This and other innovations have saved the city millions of dollars and helped reduce waste. And Barcelona has seized upon these tools without sacrificing its citizens' right to privacy—Francesca Bria, the city's chief technology and information officer, is a leading advocate in Europe for digital sovereignty.





An artist's rendering of  
Sidewalk Labs' proposed  
Quayside project



“Data is described as the oil of the digital economy,” says Michael Lionais, a federal public service executive who, through the Interchange Canada program, is currently working on CPA Canada’s Foresight Initiative, which is looking at how the accounting profession will deal with data governance. “However, it cannot be mined at the expense of our people or sovereignty. The ethereal nature of data storage and analysis is going to challenge current jurisdictional views and practices. CPA Canada intends to be at the forefront helping shape Canada’s approach to these issues.”

Quayside presents governments with a real project to help drive a data governance agenda that will bring Canada into a new era. As Mark Surman, the executive director of Mozilla, wrote in a *Toronto Star* op-ed, this conversation is not just about Quayside. In many ways, cities already have access to citizens’ data—any time you sign into a public Wi-Fi network, say, at a coffee shop, or walk past a CCTV camera, you’re relinquishing information about yourself and your whereabouts. It’s high time we implement legislative frameworks to ensure our cities take advantage of evolving technologies without trampling on the rights of the people who live in them. ♦

**Q&A**

## START-UP CITY

As Sidewalk Labs’ director of investments, CPA Nicole LeBlanc scouts out local firms to assist in bringing Google’s vision to life. Here, she discusses the role of Canadian start-ups in urban innovation.

**BY KATIE UNDERWOOD**

**What is Sidewalk’s vision for the Quayside project, and where does it stand right now?**

The tagline is that we want to build a sustainable, affordable, inclusive neighbourhood with unprecedented access to green space, public parks, affordable transportation and reduced commute times. Basically we are trying to create a radical mixed-use ecosystem around urban innovation, one that can be more impactful than traditional developments. We’re talking about the creation of 44,000 jobs and more than \$4 billion in annual tax revenue. I’m going to be launching an entire fund for Canadian start-ups. It’s probably not going to close until the second quarter of 2020, but I have a list of 300 Canadian companies I’ve met with or plan to.



## “WHAT WE’RE DOING IS NEW AND CUTTING-EDGE, AND THERE ARE ALWAYS GOING TO BE PEOPLE WANTING TO ASK QUESTIONS”

**How does accounting factor into your role as director of investments?**

When my husband and I moved to Fredericton in 2007, I was looking into what kinds of next steps an accounting career could provide, which is how I found venture capital. I’ve been in VC for 12 years now. I focus a lot on financial analysis—particularly being able to read and interpret a lot of the accounting- and finance-related elements of companies that Sidewalk is assessing. Start-ups put together budgets and forecast models and are trying to understand costs, so as an investor, I have to do a stress test and variance to understand how realistic that is.

PHOTOGRAPH BY NATHAN CYPRIYS; PREVIOUS PAGE: COURTESY OF PICTURE PLANE/HEATHERWICK STUDIO/SIDEWALK LABS



My question is: How can we best support the company if we choose to move forward with them? Having a CPA designation allows me to take a deep dive and help early-stage companies, which are often very mission-driven, but lack that technical financial background.

**What parts of the job are you most enthused about?**

At Sidewalk, one of the really exciting things is learning about how the urban tech ecosystem grows and evolves. It is fairly new, so getting to spend time thinking about hard problems—like climate change, congestion, mobility and affordable housing—and working with start-ups that want to solve them, is refreshing. It's great to work with entrepreneurs who have big visions and deep knowledge on how to tackle these issues.

My day-to-day is quite varied, which is one of the reasons I like the job. I often host Canadian and international tech companies at our office because it has a lot of visuals of what we're working on. It might be that we can find a specific strategic area to partner on—stormwater or waste management, mobility aspects like biking or parking, or smart buildings that allow us to better manage energy, services and tenants. The rest of my time is spent managing Sidewalk's existing portfolio of 10 American companies. I spend my time going to their board meetings, helping them raise money and find talent, building team culture and analyzing their quarterly financials. I'm currently working on expanding that portfolio and am hoping to make a first Canadian company investment very soon.

**There's been no shortage of controversy around the Quayside project. How does that affect your role?**

I'm not really involved in that. Our partner, Waterfront Toronto, is backed by all three levels of government. Something like this should not be done in isolation; it needs government involvement, right from the beginning. What we're doing is new and cutting-edge, and there are always going to be people wanting to ask questions. I appreciate that, because without them, you're not going to be able to achieve any kind of innovation.

**Does all this coverage affect your interactions with potential company partners?**

A lot of my time is spent doing corporate development work on behalf of Sidewalk—it's important

for me to interact with the tech sector so they understand what we're working on and how it affects them. We need those companies and accelerators and tech leadership incubators. I need to explain what we're doing and how our goals are aligned. I'm ultimately not the person that will execute on that—I connect companies with my more technical colleagues who can have a very sophisticated discussion on whatever the topic is, whether it's mobility or sustainability. That economic-development aspect takes a village. ♦

## HOME ADVANTAGE

Should we all be working remotely? **BY ALI AMAD**



The gig economy is changing how businesses operate, and fast. Rising numbers of freelancers, contract workers and consultants mean more and more people are working from home. One might assume working in an office is more productive than telecommuting, where an employee is prey to the distractions of home and life. But is that conventional wisdom true?

Stanford professor Nicholas Bloom decided to find out. Bloom conducted a prolonged study, published in 2015, focused on a start-up whose employees averaged a long commute time. The workers were split into two groups: one that was given the option to work at home and another that was not. Nine months later, the telecommuters were shown to have been far more effective, with a performance boost of 13 per cent. They took shorter breaks, fewer sick days and showed lower attrition rates than their office-bound counterparts. Another bonus: the company saved nearly US\$2,000 per person on rent by reducing the amount of physical space needed to accommodate everyone.

Working from home has other benefits. It means less wear and tear on the body, especially for older workers.

It's also less distracting. In an April 2019 study of 400 Canadian office employees, respondents named overly chatty coworkers as the No. 1 impediment to productivity. Added emphasis on telecommuting might also benefit firms seeking young talent: Deloitte's 2016 survey of millennial workers found that 75 per cent of respondents wanted more opportunities to work remotely, and believed it would boost their productivity.

Firms are already implementing "floating" office designs, without fixed desks; companies may soon move toward having employees enter in shifts, almost like a factory. But in the five years since Bloom published his findings, other research has emerged that suggests working from home may not be for everyone. A 2019 study of 2,500 remote workers found that while 99 per cent wanted to work from home at least some of the time, nearly half of them reported struggling with wellness-related issues like loneliness or the inability to disconnect after work.

Telecommuting has already become a key aspect of employment. Ideally, the office of the future will evolve to be as flexible as its burgeoning workforce.



FRAUD

# SHAM, WOW

A catalogue of recent cons

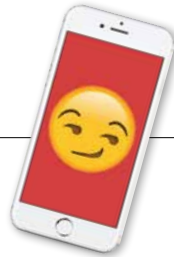
## GRANT SCAM

Nickname for a widespread scheme in which online fraudsters pose as the Government of Canada and promise “free money” for business financing or personal spending, so long as the recipient agrees to pay an application fee upfront.



## €220,000

Sum that a British energy company wired to a secret Hungarian bank account in one of the world’s first AI-powered heists. The employee who sent the money believed he was following orders from his CEO, but the eerily lifelike voice that handed down the order over the phone actually belonged to speech-mimicking software.



## \$30,000

Approximate value of goods—including Marvel superhero action figures and DVD box sets of *The Office* and *Friends*—that a 37-year-old man is alleged to have purchased fraudulently from big-box stores in Alberta and Saskatchewan. The suspect reportedly manipulated the bar codes of the items so that they would cost less, bought them at automated check-outs to avoid getting caught and then resold them for a premium.

## \$15,700,000

Amount that a self-described foreign-currency trader in Toronto took from investors—including his in-laws and long-time family doctor—through a sophisticated Ponzi scheme that dates back to 2009. He promised clients huge returns, but instead used their money to pay his rent, debt and legal expenses. He was sentenced to nine years in prison in September.

## \$1,700,000

Amount that a former CIBC branch manager in Hamilton, Ont., stole from the accounts of seniors and recently deceased bank customers between 2008 and 2015. The 60-year-old woman now faces fraud and breach of trust charges.



### “OUR HOUSE IS NOT FOR RENT, NEVER HAS BEEN, NEVER WILL BE”

Statement from a Langley, B.C., resident after a string of would-be renters showed up at his door expecting to find a vacant home. He discovered that a scammer had posted a phony Craigslist ad for his house, posed as its landlord and accepted \$800 deposits from several people interested in renting the property.

## FRAUD FIGHTERS

## \$1,040,000

Amount that the city of Saskatoon recovered from scammers in September 2019. Earlier in the year, the municipality lost the money to someone masquerading as the CFO of a local construction company. The city spent three months recovering the funds, which were locked in roughly a dozen different bank accounts.



**“I’M A VERY ENTHUSIASTIC BUSINESSMAN AND THINK £1,000 IS AN INSULT”**

Response that University of Limerick student Ross Walsh sent to an online swindler who’d asked for a £1,000 investment. Walsh countered that he actually wanted to invest £50,000 if only the perp would send him £25 to prove it wasn’t a sham. When he did, Walsh gave the money to the Irish Cancer Society, marking the third time he’s turned the tables on a scammer and donated the loot.

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"This agreement is going to help us to ensure that the small business economy continues to advance; a lot of accountants look in the rear view mirror, we're more interested in looking through the windshield. We believe QuickBooks Online can help us get there," said Brian Austin, President of Padgett Business Services Canada.

## Focus on what matters most

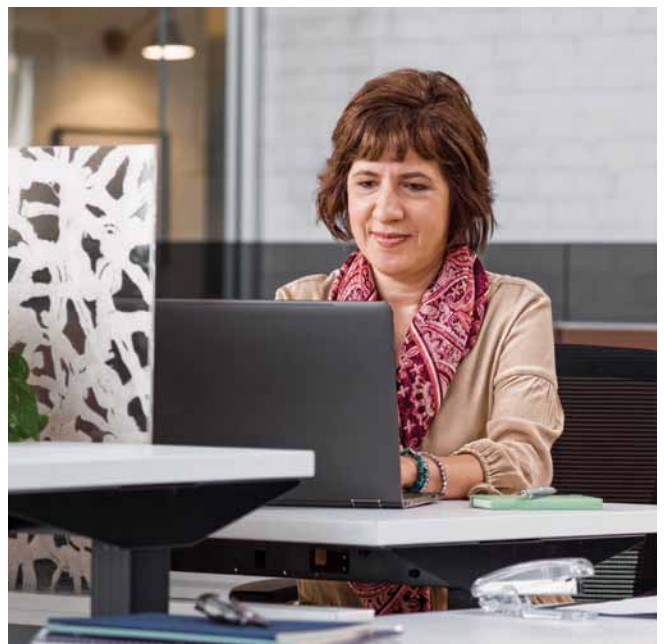
For Padgett, this agreement allows their focus to remain on providing business analysis, interpretation, and advice to their clients.

"We are excited to be working with the market leaders in cloud accounting. This will allow us to shift our focus from extensive number crunching to analysis and advice, which is where we believe the true value lies for many of our clients," said Hal Canaan, Executive Vice President of Padgett Business Services Canada.

Padgett provides a unique combination of business services to help small business owners succeed by leveraging personal relationships and efficient service. With QuickBooks Online in the mix, those relationships and efficiencies can be given more attention.

"We believe that increased collaboration with organizations that are supporting small businesses is imperative to ensure that small businesses have the tools they need to succeed and prosper," concluded Patrick Harrison, Canadian National Accounts & Quebec Region Leader at Intuit Canada.

By joining forces we aim to remove the barriers that accountants and small businesses face, so collaboration, clarity, and success are within reach.





BY THE NUMBERS

# COOL AS A CUCUMBER

Viral diets, crummy weather and invasive species all have the power to turn common foods into rare—and expensive—products. Here, six examples of sticker shock that rocked the grocery aisle. —*Steve Brearton*

## LIMES

**Peaked at:** \$200/case in spring 2014  
**Average:** \$35/case

After a tree-worm infestation and extreme rains hindered lime production, opportunistic drug lords in Mexico made matters worse by imposing steep taxes on lime farmers. "If they're not nice," said one Mexican journalist, "they just kill farmers, take the land and take over lime production themselves."

## AVOCADOS

**Peaked at:** \$120/case in spring 2017  
**Average:** \$40/case

Avocados—sought out for their unsaturated fats—became synonymous with millennials in 2017, when Australian real estate mogul Tim Gurner implied that young people couldn't afford homes because they were "spending \$40 a day on smashed avocados and coffees and not working."

## KALE

**Peaked at:** \$2/pound in fall 2014  
**Average:** \$1/pound

Kale's popularity soared when it was declared a "superfood" rich in vitamins A, C and K. Farmers dramatically increased production to avoid shortages after Gwyneth Paltrow endorsed the leafy green and Beyoncé appeared in a sweater emblazoned with the word "KALE" in a music video.

SOURCE: UNITED STATES DEPARTMENT OF AGRICULTURE





## CELERY

**Peaked at:** \$10/bunch in spring 2019  
**Average:** \$2/bunch

Wellness author Anthony William, described in *The Guardian* as the “Jesus Christ of celery,” spawned a celery craze when he recommended drinking 16 ounces of celery juice daily and claimed that the veggie is “a powerful herbal medicine that’s killing bugs in people’s bodies.” In some markets, sales reportedly spiked 400 per cent.

## CAULIFLOWER

**Peaked at:** \$8/head in winter 2016  
**Average:** \$2.50/head

The price of many vegetables skyrocketed when drought hit California and the Canadian dollar dropped below US\$.70. Cauliflower had a particularly steep surge, thanks to chefs and food industry analysts who had recently begun hyping the veggie as the new kale. One Calgary café owner, who temporarily removed cauliflower from the menu, said, “If I’m going to make a cauliflower scone, then it might as well be a steak scone.”

## VANILLA

**Peaked at:** \$700/kg in winter 2018  
**Average:** \$40/kg

In early 2018, a cyclone tore through Madagascar, damaging more than a quarter of the global vanilla supply. At the same time, firms like Nestlé and Unilever were embracing natural ingredients. A black market emerged. “We’ve had multiple phone calls from super-sketchy people telling us they can get us real vanilla at a cut-rate price,” said an Edmonton bakery owner.

PHOTOGRAPH BY DANIEL NEUHAUS

## THE ECONOMIST

## WHAT, ME WORRY?

All signs point to a recession.  
Is it time to panic yet?



FRANCIS  
FONG

It's the economic question of the day: when is the next recession going to hit? If you've been following the news, the answer is, supposedly, soon. Last October, David Rosenberg, chief economist at Gluskin Sheff + Associates, pegged the probability of recession in Canada at 80 per cent in the near term, while others are more "optimistic," putting the odds at between 50 and 70 per cent. According to an August 2019 survey by the National Association for Business Economics, 74 per cent of economists predict a recession in the U.S. within the next two years.

Is this the boy crying wolf, or is the wolf actually lurking?

The concern about a recession is predicated on a few factors. The first is the U.S.-China trade war. Until recently, free trade was a hallmark of modern economies that most people assumed would continue unabated. But political upheaval around the world has turned what were legitimate concerns into outright attacks on free trade. This has translated into a tit-for-tat increase of trade tariffs between the two largest economic superpowers in the world—an escalation that has the potential to derail global trade volumes and send global economic growth substantially lower than it already is.

According to the Peterson Institute for International Economics, as recently as 2017 the average tariff rate the U.S. applied to Chinese imports was just 3.1 per cent. That rate has skyrocketed to 21 per cent as of September 2019. If President Trump follows through with all of his tariff threats, the rate will rise to almost 25 per cent—and the share of goods that are subject to tariffs will have increased from 8.1 per cent in 2017 to nearly 97 per cent in 2020.

This marks a deeply concerning increase in U.S. trade protectionism reminiscent of the Smoot-Hawley Tariff Act of 1930—legislation that is often cited as a major contributor to the Great Depression, as it raised import duties at a time of already weak global growth. Financial markets are rightly concerned that playing chicken with the global economy will end in a disastrous collision.

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The second piece of information that is raising fears about a recession is the fact that, in the spring of 2019, the U.S. Treasury yield curve inverted. For the uninitiated, an inverted yield curve refers to a unique outcome in government bond markets in which long-term bond yields are lower than short-term bond yields. Under normal economic conditions, the reverse is typically true—a borrower will usually need to pay a higher interest rate to an investor to compensate for: 1) the likelihood that interest rates will be higher in the future than they are now; 2) the additional uncertainty and inflation that comes with holding a longer-term security; and 3) the opportunity cost of locking in one's money for a longer period of time (the latter two are collectively referred to as the "term premium"). These are costs that investors need to be compensated for, so yield curves typically have an upward slope.

A downward slope means that the investor is willing to accept a lower interest rate on a longer-term bond than a shorter one, despite all of these costs. And the only economic circumstance in which that makes sense is if expectations are for interest rates to drop dramatically in the future. In other words, bond investors are expecting significant interest rate cuts from central banks in order to combat economic weakness—that is, recession.

Economists have long used the shape of the yield curve to predict future economic conditions. An inverted yield curve is the most accurate indicator available, preceding almost every recession we have good data for going back to the 1970s. On May 25, 2019, the 10-year treasury yield fell below the three-month yield for the first time since 2007, just prior to our last recession. In Canada, the spread between the two went negative on May 13.

It doesn't help that here in Canada, we have our own vulnerabilities to worry about: household debt, housing affordability and low oil prices, to name a few. Throw all of that in a blender and it's not surprising that economists are pegging the odds of recession as high as they are.

And yet, there is reason to be skeptical that a recession is right around the corner. Consider the trade risk. Prior to the last few years, a trade shock wasn't anywhere on the radar of risks that we ought to be concerned about. It's only there now because world leaders put it there. This is a fabricated risk, more politics than economics. Just as easily as it was put on the radar, it can be taken off; tariffs signed by executive order can be un-ordered. If President Trump succeeds in signing a trade deal with China, then suddenly trade as a risk to the outlook might be in the rearview mirror.



Considering the inversion of the yield curve occurred around a time of weakening economic growth but also an escalation of trade tensions, it's likely that the inversion could resolve itself should those tensions ease. But even if we consider the possibility that the two are mutually exclusive, there's reason to be cautious. Yield-curve inversions tell us little about the timing of a recession. Prior to the 1980 recession, the yield curve inverted on Jan. 2, 1979—a full year before the recession began. Before the 2008 financial crisis, the yield curve inverted in August 2006.



In addition, there is at least some reason to believe that international bond markets, particularly those in Europe, are skewing our perception of yield curves as an indicator of recession. This is due to the fact that both short- and long-term interest rates in many major European countries have become increasingly negative. European governments are now literally being paid to borrow money. In total, the market size of negative yielding debt—most of which is in Europe and Asia—had already hit US\$17 trillion in August. It would not be hard to believe that investors looking for even a little bit of positive return would look to North America and that international capital flows are keeping longer-term bond yields here more depressed than they otherwise would be. In other words, there are a lot of unprecedented things going on in bond markets, and the inversion—while still a strong indicator of a coming economic storm—may not be as significant as it once was.

There can be no doubt that a recession is looming somewhere on the horizon. We are 10 years out from the last recession, the typical amount of time that passes before the next one hits. But predicting the timing is incredibly difficult—it could be six months or five years from now. So where does that leave us? If a shepherd starts crying wolf, it wouldn't hurt to get the axe ready. But we might be waiting a little while before the beast actually shows. ♦

*Francis Fong is chief economist at CPA Canada.*

## FORECAST

# A CHANGE IS GONNA COME

How can accountants prosper in an era of technological upheaval? The same way we always have: by staying nimble.



**GORDON BEAL**

Like most accountants, I began my career at a time when accounting relied on hindsight. I was trained to analyze incomplete, backward-looking financial data and draw conclusions with the underlying assumption that the past was prologue. We took a dispassionate look at the past to make defensible inferences about the future, which helped clients and investors make informed decisions.

Today, however, strategic business choices are driven by foresight, not hindsight, and business leaders care about far more than dollars and cents. They want to ensure the long-term sustainability of their business—looking not only at what happened last fiscal year, but what's going on now and what might occur in five years.

As the needs of businesses change, so should our profession. We need to adapt, innovate and even reimagine what it means to be an accountant. CPAs need to see themselves not as keepers of finance but as proactive contributors to the real-time evaluation of value and performance.

## TECHNOLOGICAL CHANGE IS FORCING CPAs TO FIND NEW WAYS TO PROVIDE VALUE

Fortunately, the profession is already moving in the right direction. A range of stakeholders—including consumers, institutional investors and policy-makers—are pressing companies to become more attentive to the ecological impacts of their activities, and accountants have developed methods to measure and report on these factors, gleaned insights from new categories of data. These disclosures aren't just a flavour-of-the-month focus for activist shareholders; they're central to risk-management strategies. CPAs' sustainability evaluations help boards and senior managers understand and prepare for future exposure to regulatory and ecological risk.



By properly measuring the environmental impacts of their work (such as emissions or the recycling costs associated with packaging), companies are ensuring the future of their business—and the planet.

Technological change is also forcing CPAs to find new ways to provide value. Blockchain, for example, can record every transaction in real time, rather than a sample after the fact. The catch is that it also jeopardizes the value of an accountant's skills: why hone the techniques needed to provide a reliable audit when software might be able to do it better and faster? But these new systems will be neither glitch-free nor self-managing. In an era when companies are expected to gather, understand and publicize huge tranches of financial information, the handling and governance of that data will emerge as a vital service. It's a role that CPAs can fill, so long as we make the effort to figure out exactly what those services are and develop the skills we need to provide them.

I admit it can seem like a daunting task. Over the past several months, a number of late-career accountants have told me how glad they are to be retiring, precisely because it means they'll never have to grapple with blockchain, artificial intelligence and all the other technologies that will

supposedly render conventional accounting obsolete.

This confection of fatalism and pessimism reminds me of another critical turning point in the history of the profession. At the peak of the Industrial Revolution, accountants had to fundamentally reimagine their roles. The double-entry bookkeeping system had served them well for hundreds of years, but when industry boomed and systemic taxation was introduced in the mid-19th century, established accounting methods fell short. It was no longer good enough to simply record the exchange of goods; accountants realized they had to change the way they made their calculations and measure capital and assets, too. Our professional forebears were faced with an existential challenge, and they evolved to meet it.

Historical course corrections like these are a reminder that accounting has never been static. In fact, our current practices are the result of past generations constantly adapting to the disruptive changes of their day, whether it was capitalization in the 1800s or digital spreadsheets in the 1980s. We owe it to future accountants to do the same. ♦

*Gordon Beal, CPA, CA, M.Ed., is CPA Canada's vice-president of research, guidance and support.*

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# Look out for outlooks

We change our minds, act emotionally, and adapt to new situations differently each time. This makes divining the stock market even more prone to error than a weather forecast.

As an investment management firm, we are constantly asked for our market outlooks. What will happen if the Fed starts raising interest rates? Does the yield curve inversion mean a recession is imminent? What's going to happen with Brexit? Frankly, our outlook is likely to disappoint. Why? Because we don't have one. Science tells us that to attempt an outlook for a complex system such as the stock market, is ill-advised. Let's see why.

## LaPlace's Demon

Our reasoning begins with Pierre-Simon LaPlace, a 19th century French mathematician and astronomer. LaPlace lived shortly after Sir Isaac Newton, and, like many people in this time, was greatly influenced by Newton's theory of the Clockwork Universe. In this universe, the clear relationships between cause and effect led to the notion that we could, with great accuracy, predict the behaviour of the solar system. LaPlace took this idea to the extreme and believed if you had enough inputs, you could predict the future indefinitely.

His philosophical view became known as "LaPlace's Demon" and was a widely accepted theory of how things worked in the 19th century. This logic still somewhat persists in the investment industry today: if we are smart enough and if we analyze things enough, we can figure out what markets are going to do next. If the Fed cuts rates, stocks go up. Works every time — just like the law of gravity.

But we don't live in a world of clear cause and effect as described in those initial theories by Isaac Newton or Pierre-Simon LaPlace. Instead, we live in a complex one.

## A world of complexity

Physicists at the beginning of the 20th century showed that Newton's Clockwork Universe is a mirage. And, without getting too deep into quantum mechanics, something known as the Heisenberg Uncertainty Principle showed that LaPlace's Demon hypothesis is not even theoretically possible, because the world is too uncertain and complex.





## ADVERTISEMENT

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A well-known example of this is the butterfly effect, when mathematician and meteorologist Edward Lorenz famously asked: “Does the flap of a butterfly’s wings in Brazil set off a tornado in Texas?” It might. Or it might not. The weather is a complex system made up of so many variables, interactions, and sensitivities to the slightest inputs, that it is virtually impossible to say with any certainty.

Stock markets are also complex systems. Worse, they are complex adaptive systems, meaning that the players within them don’t always act the same way under similar sets of circumstances — mainly because they’re human. We change our minds, act and react emotionally, and adapt to new situations differently each time. This makes stock market predictions even more prone to error than a weather forecast: the immensely complex inter-relationships of political, societal, economic, and human factors are simply impossible to accurately model.

### Planning around a hurricane

If making predictions is a questionable investment strategy, what are we supposed to do as investors? The good news is that just because a system is complex doesn’t mean it’s hopelessly unpredictable. We just have to respect the limits of our knowledge. For example, we don’t know if there will be a hurricane in Cancun on February 10th next year. But we can say that 97% of the major hurricanes in the Gulf of Mexico form between June and November. So, if you’re planning a Mexican vacation, February is likely okay. This is a generalization, and it may be wrong, but the odds are definitely in your favour.

It is the same with investing. Some things you can predict with a fair degree of accuracy, and some things you cannot. The important skill is to know the difference. It doesn’t mean that we don’t care about the direction of the U.S.

dollar, the price of oil, or whether the economy will be strong or weak over the next 12 months. We do. It’s just that we know they can’t be predicted with any degree of certainty, so we don’t spend much time on it. Instead, we focus on what will put the odds in our favour, and the range of probabilities around that.

### Be boring, make money

If investors can make any prediction with a high degree of certainty, it is this: that a portfolio of securities with certain characteristics will generate a return over time that is better than the market, with less risk than the market.

And what are these characteristics? We believe it’s a portfolio made up of companies that are wealth-creating — generating a return on capital greater than their cost of capital — led by strong management teams, and bought at a discount to their intrinsic value. They may or may not beat the market during the next quarter or calendar year, but they most likely will over the long-term.

This strategy may sound simple, but it’s definitely not easy to implement. It requires consistent, hard work that is quite time-consuming — maybe even a little boring.

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# ALL THAT GLITTERS

**There's gold hidden in the endless stream of digital information. Can Quandl help investors find it?**

**BY PETER SHAWN TAYLOR**

**PHOTOGRAPH BY DANIEL EHRENWORTH**

**I**nformation has always been the world's most valuable currency. When Napoleon lost at Waterloo on June 18, 1815, it took British couriers three days to bring the news to London. But thanks to his firm's unique network of swift ships and relay riders, financier Nathan Rothschild knew the outcome of the battle two days before anyone else. He used that information to make a killing on British gilt bonds—which soared in value when Napoleon's defeat was announced—doubling his family's already prodigious fortune in the process.

Rothschild's 48-hour head start may be history's most famous example of what we now call "alternative data"—information that's relevant to financial markets but not readily available to all professional investors. These days, however, investors gain an edge through Big Data and computing power, not fast horses and leather pouches. That's why, if

Rothschild were in the market for alternative data in 2020, he might turn to Tammer Kamel.

Kamel, 48, is the CEO of Quandl, a Toronto-based firm at the forefront of the alternative data boom. Since its founding in 2012, the 55-employee company has built a collection of 400 conventional and alternative data sets covering all manner of insight and ingenuity—including several accounting-themed sets that, for example, track audit-related issues such as restatements and late filings, or use number theory to search for anomalous entries to financial statements. "What's going on now is an explosion of data all over the world," says Kamel. "As more companies become data driven, they are measuring what is going on around them and that information, serendipitously, becomes useful to professional investors."

Alternative data offers those investors the chance to know things that others do not. That might mean analyzing millions of collated credit card bills for

▶  
Quandl CEO  
Tammer Kamel







◀ “I can measure the sales of every car company in North America on a day-to-day basis,” says Kamel

hints about changing buying habits, or tracking the movement of business jets and oil rigs to get a jump on corporate announcements. It can help investors predict who’s about to go bankrupt, determine whether the new iPhone is a hit and decide whether or not to trust China’s official growth numbers.

Ten years ago, these sorts of insights were the exclusive purview of sophisticated hedge funds. But recently, the broader investment community has begun to recognize the value in gaining this kind of informational advantage. After all, it’s almost impossible for professional investors to get a leg up on competitors by looking at publicly disseminated, strictly regulated information: quarterly earnings reports, stock prices and other fundamentals.

Alternative data may lack the rigorous oversight and confirmed veracity of audited financial statements, but that hasn’t quelled investor interest. “Alternative data is going mainstream,” says Richard Johnson, principal of market structure and technology at the Connecticut-based financial services consultancy Greenwich Associates. He adds that half of all the institutional investors that he’s surveyed plan to increase their use of alternative data in the coming year. Deloitte also reports that annual global spending on alternative data is growing rapidly, predicting it could hit US\$7 billion in 2020. As a result, Johnson says, “There are now more than 100 firms out there selling alternative data.”

Quandl stands at the head of that pack. In December 2018, Nasdaq acquired the firm, giving Quandl global reach and access to new data sources, while

## Deloitte predicts annual global spending on alternative data could hit US\$7 billion in 2020

bolstering the stock exchange company’s market intelligence unit. (While details of the deal are private, Quandl had previously raised more than \$20 million in funding.) “When you are a small, unknown entity called Quandl, there is a perceived risk for a company to deal with you,” says Kamel. “But when Nasdaq comes knocking on your door, that’s different.”

Rather than indulge the hype surrounding alternative data, Kamel preaches a gospel of quality over quantity. He is skeptical, for instance, of using satellite imagery of store parking lots to determine retail foot traffic—a Bond-like method that’s popular with the press but, in his view, unproven as a source of useful info. “If the data set cannot say anything definitively through statistical analysis, if the data is too noisy or too small, we disqualify it,” he says. “Only one in a hundred data sets survive our tests.”

Those exacting standards seem to be paying off. Today, Quandl’s data sets—which cost between US\$35,000 and US\$250,000 per year—are used by nine of the world’s top 10 hedge funds, and eight of the 10 biggest investment banks. In a recent survey by Greenwich Associates, Quandl scored highest



By partnering with software firms that service e-retailers, Quandl can glean what online shoppers are buying in real time

in brand recognition in the alternative data sector. The timing couldn't be better. The world is only getting hungrier for alternative data, and Quandl is emerging as one of the best places to find it.

**K**amel was born and raised in and around Toronto, but Quandl's roots trace back to Japan. After earning a computer engineering degree from the University of Waterloo, Kamel spent five years in Tokyo working as a quantitative analyst for the hedge fund Simplex Asset Management, where he met Abraham Thomas, a portfolio manager. By 2010, he and Thomas (now Quandl's chief data officer) had returned to Toronto and started thinking about creating a more user-friendly delivery system for conventional investment data. But going up against established industry data providers was daunting. "We realized we needed to offer something truly different from what Bloomberg had," says Kamel. "So we went out and found data that wasn't available anywhere else."

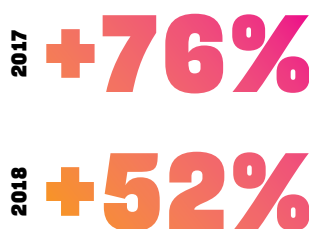
One of Quandl's first big hits came from a deep dive into a credit survey of small firms produced by the commercial data company Dun & Bradstreet. Kamel and Thomas realized that, by recalibrating the data, they could uncover which big companies were delaying or avoiding paying their bills to smaller entities, turning the information into an early warning signal for impending financial crises at major companies.

Over the next several years, Quandl added hundreds of new data sets to its stockpile. For example, they use shipping transponder data to estimate

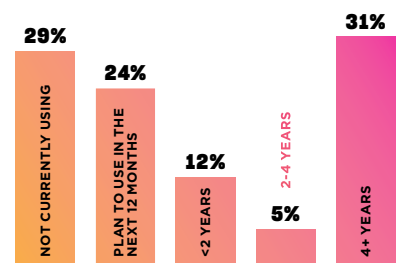
global iron ore and coal production rates, which hint at future price movements. And using web-scraped data obtained from a third party, they can reveal firms' changing hiring patterns.

One of Quandl's signature nuggets of revealed information—what Kamel calls his "canonical example"—is its ability to track car sales with real-time precision. "I can measure the sales of every car company in North America on a day-to-day basis," he says proudly. (Indeed, Quandl's website provides a running total of selected daily vehicle sales as a bragging point: "8,547 GMs were sold yesterday.") Quandl sources this information through partnerships with insurance companies, which track new car sales as part of their policy-writing business—and, in so doing, inadvertently capture data that can provide a detailed record of the performance of specific car manufacturers and the auto sector at large. These insurance companies,

#### Growth in investment firms' alternative data budgets



#### Length of time that investment managers have used alternative data





Kamel says, “didn’t realize that they had their fingers on the pulse of a crucial part of the economy.”

Kamel calls this sort of evidence “exhaust”—a by-product of a third party’s business that offers great value to investors once it’s been compiled, verified and packaged. For many firms, selling exhaust is quickly becoming a significant source of recurring revenue—Quandl is regularly solicited by firms that hope their exhaust contains gold.

Another intriguing proprietary data offering is Quandl’s Corporate Aviation Intelligence platform. By knitting together publicly available aircraft registry and landing data, the firm can track 26,000 private aircraft and offer investors crucial hints to upcoming mergers and takeovers. In 2017, for example, the Johnson & Johnson jet was parked near Swiss pharmaceutical firm Actelion’s headquarters for a week prior to the announcement of its US\$30-billion share purchase. Investors who knew this could have been in line for their own Rothschild-style coup.

Quandl is also working on partnering with software companies that service e-retailers. As with car sales, exhaust from firms that offer logistics, display or ratings support to web-based retailers can allow Quandl to sneak a peek at what people are buying online in real time. This promises more timely and precise sales figures than the current practice of using credit card bill surveys to estimate sales. “We want to build rich intellectual property that will be difficult for our competitors to emulate,” says Kamel.

Not all exhaust yields valuable investment advice, though. “Ninety to 95 per cent of what we see is totally useless,” Kamel laments. “Finding data that actually has something to say is very difficult—it’s a needle-in-a-haystack problem.” Uncovering market-relevant insight from a vast mound of raw data requires massive applications of computing power and just the right amount of human inspiration. “The vast majority of the work we do is data science—pure hardcore quantitative statistics,” he says. “But it still requires experience and instinct to form a hypothesis about how the data might be useful.”

**Q**uandl isn’t the only firm trying to win big by sieving the data stream. Many of its competitors focus on only a few data sets or specialize in boutique areas like weather prediction or satellite imagery, while others collect information from a diversity of sources. Those aggregators include Ireland’s Eagle Alpha—the industry’s volume leader, with 1,000 alternative data sets—and New York City-based Thinknum, which leans heavily on web-scraping and social media sentiment,

# FIVE CPAs AT THE FOREFRONT OF THE DATA-DRIVEN ECONOMY



## Naveen Kalia

Canadian partner in charge, audit innovation, KPMG Canada Toronto

Kalia’s firm has partnered with IBM Watson and Microsoft to incorporate Big Data into KPMG Canada’s audits, many of which deploy algorithms to analyze 100 per cent of a company’s data. He is also working on using AI and machine learning to review that data for patterns, which, in combination with other tools, will allow KPMG to analyze a client’s controls and processes from A to Z, pinpoint inefficiencies and offer other business insights. “We’re moving into a world of real-time auditing,” says Kalia. “I see a future where our clients record most of their transactions on a blockchain and where we can get alerts from our AI auditor when a client enters an odd-looking interaction, in which case we’d audit it on the spot.”



## Irene Wiecek

Director and founder of the BIGDataHUB at the University of Toronto Mississauga Toronto

As director of U of T’s master of management and professional accounting program, Wiecek has incorporated data analytics, AI and coding into her curriculums. At the BIGDataHUB, which she founded in 2018, young and aspiring CPAs work alongside faculty, data scientists, engineers and ethicists in workshops, conferences and case study competitions using real data sets. “Once you open your eyes to Big Data, you can’t see anything the same way anymore,” says Wiecek. “CPAs have traditionally been the decision makers—we gather evidence, model and analyze it, and then make our decisions. The evidence of the future is Big Data. CPAs will still need to be skeptical as they look under the hood of systems that are increasingly driven by AI and fuelled by Big Data, and then we’ll provide the assurance and advisory services we always have.”





## Carlos Leal

Senior manager, digital and emerging technologies, technology consulting, EY  
Vancouver

Leal helps EY's clients understand the value of data in broader business strategies. Through proof-of-concept cases, he demonstrates how it can help address business problems or create new opportunities to generate value—for example, he showed an entertainment company how insights gleaned from consumer data could attract more customers and offer them a better experience. "In the past, we used financial statements as key indicators of where a business will be in the future," says Leal. "But now, we're able to aggregate data from internal and external sources like social media to add much more accuracy and speed to business performance predictions. There are also privacy and security concerns around this explosion of data, and that's where accounting can play a prominent role in governance."



## Erin Kelly

Co-founder, president and CEO,  
Advanced Symbolics Inc.  
Ottawa

Kelly's firm uses an in-house AI tool named Polly, which performs text analytics on social media posts to predict human behaviour without asking questions or collecting names. Polly predicted both the Brexit "leave" vote and Trump's election, and has been tasked with exploring everything from suicide reduction to public transit habits. "People are worried that Big Data and AI are going to take their jobs, but I think they'll enable us to do things we could never do before: better identify fraud, improve performance management," says Kelly. "CPAs will need to get educated on the promise of Big Data and AI. This is a business function and should be done by business professionals like CPAs." (Read more about Kelly in the November/December 2018 edition of *Pivot*.)



## Pauline Brunet

Delivery manager, Element AI  
Montreal

Brunet leads a team of developers, designers and applied research scientists that builds AI-powered software for Element's clients. By deploying tools like optical character recognition (converting images of words into machine-encoded text), Brunet's software frees clients from rote manual tasks and supplements their value-added, decision-based work. "The volume of Big Data that exists is already too much for CPAs to handle manually—they won't be able to digest it all and make decisions quickly enough," says Brunet. "AI is the solution. This will lead to a departure from the traditional accounting role. Instead of recording transactions and booking entries, CPAs will need to become storytellers with the data." —*Ali Amad*

tracking such things as menu prices at Chipotle Mexican Grill, or government contracts awarded to heavy equipment manufacturer Caterpillar. (According to research by Greenwich's Johnson, the top five sources of alternative insights across the entire industry are web-scraped data, crowd-sourced information such as surveys, credit card and point-of-sale details, social media sentiment, and collated web search trends.)

Manipulating and monetizing Big Data in this way inevitably raises privacy issues, something Kamel readily acknowledges. "We are absolutely zealous in our due diligence about data rights and privacy," he stresses. "We don't touch any data unless it can be demonstrated that the sellers hold all the rights." And any data used must be fully anonymized. Kamel claims a complete lack of interest in accessing anyone's personal details. "I don't give a damn what you bought yesterday. I only want to know how many iPhones were sold in total last month."

Ann Cavoukian, executive director of the Global Privacy and Security by Design Centre in Toronto and Ontario's former privacy commissioner, declares herself "pleased with Quandl's commitment to using anonymized data." She advises alternative data firms to pay attention to the risk of re-identification of personal information within their data sets, which can become a problem following a data breach. "You really need to demonstrate the strength of your anonymization," she warns.

One of Cavoukian's biggest online privacy concerns is the proliferation of apps specifically designed to harvest consumer data. Free apps that track your packages or manage your finances are almost certainly collecting information about your buying habits and selling it to alternative data providers, often without the users realizing what's happening. "I'm always telling people to stay away from those apps," she sighs. "But no one has the time to review all these apps' consent provisions and what they're doing with their information."

Beyond privacy, Quandl has another pressing concern: winning Canadian customers. Despite the firm's homegrown success, its clientele consists almost entirely of large U.S. and European investors, save for a couple of well-known Canadian institutions. "We're better known in New York than Toronto," Kamel admits. "Canada tends to be risk averse when it comes to financial markets, so we're not early adopters." That could change, of course, as alternative data continues to gain mainstream acceptance. Until then, he's determined to resist the temptation to pack up for brighter lights, citing his hometown's ability to attract overseas talent as one reason to stay put. "We started as a small company in Toronto," he says, "and that's why we're still here." ♦

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# THE MISSING LINK

**Data is key to Canada's economic future—and CPAs should be the ones to unlock its potential**

BY MICHEL GIRARD

**O**ver the past 18 months, Canadian CPAs have been deeply engaged in a rare exercise that aims not only to anticipate the future, but also to develop strategies that will help the profession adapt to the disruptive changes heading its way. This process, CPA Canada Foresight: Reimagining the Profession, has involved round tables, online discussions, scenario planning and a lot of hard thinking about the rapidly evolving relationship between accounting and technology. “The Way Forward,” a report released last year, lays out a road map for addressing two key questions that emerged out of the Foresight process: In what ways can professional accountants help unlock value for the organizations they serve? And how can the profession embrace change and react quickly and innovatively to new developments in the business community while continuing to support our members and act in the public interest?

There was broad consensus that a central part of the profession's future lies in mastering and reshaping a data-driven economy. A recent visioning exercise conducted by the federal government identified digitization in key sectors—health, bioscience, advanced manufacturing and agribusiness—as crucial to Canada's economic future and well-being. And with that digitization comes an explosion of digital information. Data has

become a kind of medium of exchange that flows through the veins of our economy. And as with any currency, data only has worth when society has established principles about how it is valued, measured and traded. That presents an opportunity for CPAs, who are well positioned to provide oversight and governance of “data value chains.”

If a data value chain seems like an obscure concept, consider the analogy of a more familiar value chain: oil and gas. The chain begins with exploration activity and test drilling, and then extends across multiple sub-sectors: refineries, pipelines, distribution and so on. Different sorts of professionals work at each stage: geologists, process engineers, high-skill pipe fitters and marketers, to name a few. The value chain also requires high-level oversight by professionals who can measure the value of the resource, integrate sub-systems and ensure regulatory compliance. Often, these professionals are CPAs.

The same structure should exist for data value chains. They depend on the flow of digital information rather than the flow of oil, but they share many of the characteristics of other value chains. Instead of process engineers and geologists, data value chains depend on experts like data brokers, software engineers, data analysts and programmers. And rather than drilling for oil, they collect data, exchange it, analyze it and provide solutions as to how to use it, such as feeding it into an artificial intelligence application. Big tech firms routinely glean valuable insights from the large data tranches they amass, and with the right standards, data value chains can serve other organizations of all scales—even those that are not currently in the business of managing pools of data.

Like oil and gas, data value chains will require the right professionals and standards to ensure good governance and value maximization. They'll need to operate within an overarching framework—not unlike the performance management systems or accounting and auditing standards used today—that allows companies to take advantage of this resource. That calls for a new set of professional skills focusing on enterprise-wide governance and using information as an asset. As trusted advisers, CPAs are well suited to step into that role.

Their duties will encompass working with a range of emerging disciplines and professions in the management of operations linked to the effective flow of information both inside and between organizations:

**Data management.** To leverage the value of the data pools they possess, companies will need to create records-management systems, deploy data-collecting devices and sensors, organize and grade the information gathered, and ensure the retention of metadata (data that describes other data).

**Data segmentation.** Operationally, data value chains must be properly segmented so that the right professionals manage the right components: cleaning up raw data, putting it in standardized formats, then aggregating, de-identifying, pooling and mining it for insights. Someone will need to determine what roles data engineers, data controllers, artificial intelligence experts and data scientists should play at different points on the value chain.

**Data valuation.** Increasingly, the share value of publicly traded companies is associated with data and intellectual property. Yet much of this value isn't reflected on balance sheets and financial statements. CPAs should take the lead in developing approaches for valuing that data so companies can figure out how to monetize it.

**Data standards.** Effective oversight and governance can only exist if there are open, shared standards that allow various players at different points in the value chain to share data. There needs to be a common set of rules about financial or operational tasks, ranging from valuation and benchmarking to technical interoperability. Critically, standards, guidance and data KPIs will be required to clarify the roles and responsibilities of participants in data value chains.

**Data governance.** As companies increasingly digitize, collect and share more data, and find new ways of monetizing it, there will be a growing role for professionals with the skills and experience to tackle important ethical and regulatory issues arising from privacy law compliance, cyber-security and appropriate data use.

## **The accounting profession is exceptionally well positioned to provide necessary oversight as the data value chain ecosystem develops and takes root**

While we've singled out data value chains as a vital component of Canada's economic future, today's ground-level reality is that the vast majority of data analysis still occurs within single organizations. The risks and uncertainties associated with data sharing between organizations, even between divisions or branches in the same organization, are inhibiting the open flow of data. That poses a risk—and presents an opportunity—not just for the accounting profession, but the

economy at large. Just as we wouldn't be able to reap the benefits of oil and gas, agriculture and manufacturing without good governance and standards, we won't have the capacity to compete in the global data economy of the future without similar frameworks.

That's why we will need foundational standards to bring transparency to data value chains, establish common parameters, allow for interoperability and set verifiable data governance rules to establish and maintain trust between participants and with regulators. These standards are vitally important because they will ensure data is valid and trustworthy—precisely what is needed to help decision-makers make informed choices that drive success. Because the accounting profession is so versed in standards setting, assurance, valuation and governance, it is exceptionally well positioned to provide necessary oversight as the data value chain ecosystem develops and takes root. “CPAs have a lot of experience building frameworks that ensure financial information is consistent, comparable and reliable,” says Tashia Batstone, CPA Canada's senior vice-president of external relations and business development. “Financial information is just one form of data. We have to take the skills we already have as they pertain to financial information, the most critical piece of data that businesses used in the past, and apply those skills to broader forms of data, which will become increasingly important for businesses in the future.”

CPA Canada is represented on the steering committee of the Data Governance Standardization Collaborative, a multi-stakeholder initiative led by the Standards Council of Canada. The Collaborative will identify where the development of standards would help the country to capitalize on the benefits of data while managing security and privacy risks. In addition, CPA Canada has signed a memorandum of understanding with the Chief Information Officers Strategic Council to explore the development of guidance to help frame these issues.

To continue this process, the profession is building on the Foresight process and designing a consultation strategy so that CPAs can begin the granular work of supporting standards, gaining experience in an emergent discipline and establishing themselves as authorities. In a domain that will become vital to Canada's 21st-century economy, CPAs have a golden opportunity to take the lead and, in so doing, enable the evolution of the profession. ♦

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*Michel Girard is a senior fellow with the Centre for International Governance Innovation, an independent think tank in Waterloo, Ont., and a consultant on Foresight's data workstream.*



Make Lemonade, a co-working space in Toronto geared towards women





# A DESK OF ONE'S OWN

## INSIDE THE RISE OF WORKPLACES JUST FOR WOMEN

BY LARA ZARUM  
PHOTOGRAPHS BY DEREK SHAPTON

**A**fter four years at a Big Four firm and two years as a controller at a large media company, Lisa Zamparo, CPA, decided it was time for a change. She was sick of commuting into the financial district from her home in north Toronto, and she was itching to put herself in her clients' shoes and start her own business.

In 2015, Zamparo, now 35, launched a financial planning firm aimed at helping young families. Working from home was convenient, but lonely. She had a dog, so she wasn't the only soul in the house, but it was getting harder to wake up every morning with nothing to get dressed for and no place to go. She was also having trouble finding a space to host clients; coffee shops weren't cutting it. "When you're talking about taxes and a client's finances," she says, "you want something that's private." She'd tried to book conference rooms through office rental companies in the city, but they felt too corporate, too bland—all grey carpets and grey walls.

Zamparo was speaking at a startup investment event when she met Rachel Kelly. Kelly was in the midst of starting her own business, Make

Lemonade, a co-working space geared to women. The two clicked, and after scrolling through Make Lemonade's Instagram account, Zamparo decided it was exactly what she was looking for.

"It was an interesting selling point that it was female-focused," she says. "I hadn't seen anything else like that. I described it as my Instagram dream come to life—it's just so beautiful and bright and bubbly, and if I had unlimited funds to design my own home office, that's what I'd want it to look like." When Make Lemonade opened in the fall of 2017, Zamparo was among the first to tour the space—a bright, 3,000-square-foot office in downtown Toronto with rows of blonde-wood desks, a kitchen, three closed-door meeting rooms and a lounge space carpeted with AstroTurf, called the "patio." Although Make Lemonade bills itself as an inclusive workplace and accepts male members, all of its roughly 200 members are women. Zamparo officially joined in December 2017. Her business, the Wellth Company, now rents four permanent desks for her and her team.

Zamparo is part of a wave of female entrepreneurs who are joining co-working spaces created foremost to serve women. As it happens, the majority of



people running co-working spaces globally are also women. The co-working phenomenon is entrenched in contemporary business culture: according to *DeskMag*, an online publication that tracks the industry's trends, 2.2 million people work out of 22,000 co-working spaces worldwide. Another publication, *CoworkingResources*, estimates there will be nearly 26,000 spaces by 2022.

Many of those spaces are run by WeWork, an industry giant that has opened more than 800 locations around the world since its founding in New York in 2010. But last summer, serious doubts about its leadership began to emerge: the company's looming IPO dredged up unflattering stories about its bombastic co-founder and CEO, Adam Neumann, who was later ousted by his own board of directors. WeWork's valuation rapidly plummeted from US\$47 billion to lower than US\$10 billion, and in late September, the company withdrew plans to launch an IPO.

As WeWork falters, much of the market's recent growth comes from new, independent spaces or existing spaces diversifying their services and expanding into smaller, niche markets. Case in point: the Wing, the New York-based women's co-working space that bills itself as "a network of work and community spaces designed with you in mind." Founded by Lauren Kassan, 31, and Audrey Gelman, 32, the Wing has expanded to nine picture-perfect locations in the U.S. and one in London; it plans to open its first Canadian outpost in downtown Toronto this year. Since launching in New York in the fall of 2016, the Wing has raised over US\$117 million; it has nearly 10,000 members and US\$9.6 million in estimated annual revenue—enough to drive speculation that WeWork, which led a US\$32-million Series B round in 2017, might try to acquire it.

Women-focused co-working spaces like the Wing and its competitors, which include the California-based Hera Hub and Seattle's the Riveter, are trying to succeed in this fledgling business not by mimicking WeWork's rapid expansion, but by doing the opposite: offering a tight-knit community with fewer locations. Gretchen Spreitzer, a professor of business administration and management at the University of Michigan's Ross School of Business who has studied co-working, says the trend toward gender-specific spaces is a manifestation of the nascent co-working industry trying to establish a sustainable business model—and the most effective way to encourage loyalty among members is to create a community. "People might get interested in co-working because of the amenities that are offered or the professional workspace," Spreitzer says. "But what keeps them coming back and paying that monthly fee is the feeling that they belong to the space, that there's some kind of community. That's especially potent for women."



Lisa Zamparo, CPA and founder of the Wellth Company

2.2  
MILLION  
PEOPLE USE  
CO-WORKING  
SPACES  
WORLDWIDE

**F**emale co-working spaces are in many ways the latest iteration of the women's club, a tradition that stretches back to the late 19th century. By 1912, one in eight women in Canada—primarily middle-class, English-speaking and white—belonged to one. They got together to study literature, art, science and philosophy. As historian Karen J. Blair points out, these clubs became incubators for the women's rights movement. Women had no place to gather outside the home; they were denied entry to men's clubs and were generally not welcome in the workplace. At women's clubs, they learned to hone their public speaking skills, and organized campaigns to lobby their representatives for better school programs, public parks, drinking fountains and, of course, the right to vote. In Ontario, what began as the Toronto Women's Literary Club eventually became the Toronto Women's Suffrage Association, which in 1884 helped convince the University of Toronto to allow female students. "Women were empowered together," Blair says. "They could accomplish together what they couldn't accomplish alone."



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As women won the vote and began to enter the workforce in larger numbers, membership in women's clubs dwindled. By the late 2000s, co-working spaces started to multiply. The movement is credited to San Francisco-based computer programmer Brad Neuberg, who opened a co-working space in 2005 citing a desire for both the freedom of the freelance life and the community and structure of office life. (Ironically, if perhaps unsurprisingly, he ended up working for Google.)

Co-working took off in the aftermath of the 2008 recession, a by-product of the gig economy. From their earliest days, co-working spaces' workforces were dominated by women, according to Iris Kavanagh, who helped run Santa Cruz's NextSpace, one of the first co-working spaces, from 2012 to 2014. "I was in charge of hiring and training our team, and the majority of people that were hired to work out of our spaces were female," she says. When *DeskMag* began collecting data, it confirmed that her experience was typical.

In 2014, Kavanagh was fired, along with the rest of the NextSpace leadership team. "We were removed by the lead investor and chairman of the board," she says. Three years later, she co-founded Women Who Cowork, an organization made up of 800 women who run co-working spaces around the world. The group also includes 107 co-working spaces as members, about a third of which are female-focused. But she notes that, according to *DeskMag*, while women represent a third of the founders or owners of all co-working spaces, they make up more than two-thirds of the people who

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**1/3**  
**OF FOUNDERS**  
**OR OWNERS OF**  
**CO-WORKING**  
**SPACES**  
**ARE WOMEN**

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work for them. "We see co-working as propelling women into positions of leadership within their communities," she says. "If we can close the gender gap on funding for these women-owned spaces, we believe co-working has the opportunity to achieve gender parity."

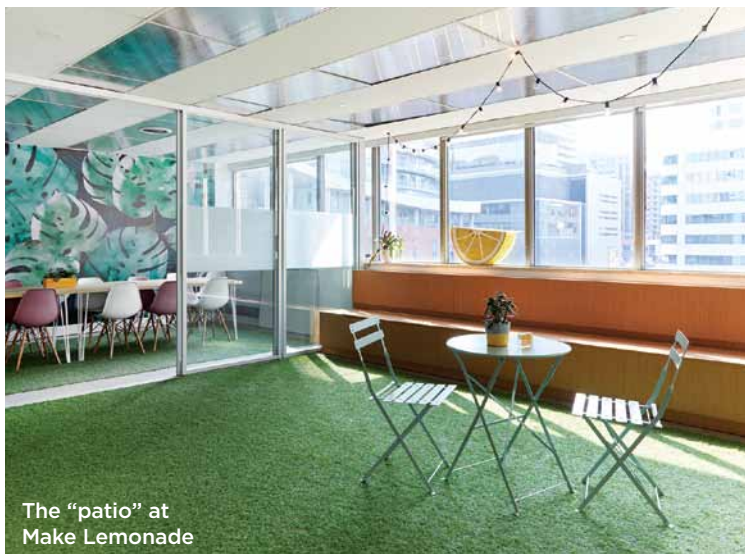
The re-emergence of women-focused spaces is the result of both economic and social forces, including the explosion of the gig economy and the aftermath of the Me Too movement, which Blair says has shed a harsh new light on the coed workplace. Some founders of female-focused co-working spaces were motivated out of a sense of empowering their fellow women workers, and of creating an alternative to a male-dominated business culture. From 2015 to 2017, Emily Rose Antflick ran a space in Toronto called Shecosystem. She envisioned a workplace that made room for the whole self. "There's that image of the entrepreneur who's all hustle and doesn't take care of themselves," she says. "I really wanted to shift to something where self-care and wellness were a part of the workday." Shecosystem was small—just 1,700 square feet, with about 100 members at its peak—and only opened during business hours, with no 24-7 access. It also housed a studio space, and each day began and ended with an optional "circle," where members could gather on cushions on the floor and do breathing exercises or meditation.

When Antflick's landlord wanted to raise the rent after her two-year lease was up, she opted to close Shecosystem. It just wasn't making enough money. She realized that for her business model to work, she needed to rent out private offices, which felt antithetical to the spirit of her enterprise.

Still, Antflick was onto something. Many women in business are attracted to the idea of a non-traditional workplace; as Spreitzer points out, "some of the larger co-working spaces have a reputation of a 'bro' culture, where maybe women wouldn't feel comfortable being there after hours." A lot of those women also run companies that are marketed to women, which makes a good business case for joining a female-focused space—it offers the chance to network with your target demographic. Zamparo's Wellth Company, for example, provides financial services to women who run small businesses.

CPA Harmik Cacace is one of 60 members at Hervana, a female-focused co-working space in Vancouver that opened in July 2018. Cacace says she finds women who own their own businesses are generally easier to talk to or approach for advice. Hervana's founder, Meredith Garritsen, gave her the green light to host a talk about finance for the space's members; like Zamparo, Cacace runs a financial services firm, Blue Skies Accounting, aimed at small businesses, and says she's found new clients through other members of Hervana.

## **“CO-WORKING CAN PROPEL WOMEN INTO POSITIONS OF LEADERSHIP WITHIN THEIR COMMUNITIES”**



The "patio" at Make Lemonade





The Wing's  
San Francisco location

These clubs vary in pricing and membership structure, but most offer a \$35-to-\$50 monthly pass that gets you access to events and the use of a desk one day per month; a monthly membership where you have access to a “hot desk” for around \$250 or \$300; and a permanent desk for \$400 to \$500 a month. (At WeWork in downtown Toronto, for contrast, a hot desk goes for between \$500 and \$580 a month; a dedicated desk will set you back \$850 a month.)

It might seem counterintuitive to pay for the privilege of working. The common critique of female co-working spaces is that they’re a kind of pink gated community—a symptom of a cultural obsession with the “girlboss,” the woman who #slaysallday at work and still manages to look fabulous out on the town at night. (One of the Wing’s selling points was that you could have a place to shower, change and do your makeup in between work and your evening plans.) These spaces market themselves as engines of female empowerment, but at these prices, they risk alienating the kind of women who might need them most. A year after the Wing opened its first location in New York, *Fortune* writer Polina Marinova mused, “Can you

2/3  
OF PEOPLE WHO  
WORK FOR  
CO-WORKING  
SPACES ARE  
WOMEN

consider yourself an inclusive community when there are 8,000 women on the waitlist willing to pay thousands of dollars to join?”

For the women who join them, however, these spaces represent a shift in office culture. If this is the cost of working for yourself, in an environment where you’re surrounded by encouraging women going through similar professional challenges, maybe it’s worth it. (Plus, it’s tax deductible.) “A co-working space is more than just a place to get your work done,” Zamparo says. “For me it has become a community of business friends and clients.”

The founders of the industry envisioned the co-working office as a place where people can feel like they’re a part of something bigger than themselves. The rise of female-focused spaces is driven by a similar impulse to reimagine the working world. When Kavanagh left NextSpace in 2014, she saw it as an opportunity to do just that. “I realized that with my new ventures I was going to bring my full self as a woman rather than bend who I am for what the company needs,” she says. “That was my motivation for helping found Women Who Cowork. Women bring something unique and that’s to our advantage.” ♦



# Sugar High



# Soda, sweets and extracts are about to transform Canada's legal cannabis industry. Chuck Rifici wants a slice of the action.

BY LUC RINALDI

PHOTOGRAPHS BY GUILLAUME SIMONEAU

In 2013, Chuck Rifici bought a chocolate factory. The building—a half-million-square-foot facility in Smiths Falls, Ont.—had been sitting vacant since Hershey left town five years earlier. There were still remnants of its glory days: a faded marquee inviting visitors into the “chocolate shoppe”; a lone factory manager who strolled the premises twice a day, keeping the place in working order should another chocolatier come along. But Rifici didn’t want to make chocolate. He wanted to grow marijuana.

Rifici, a 45-year-old CPA, is the co-founder of Tweed, one of Canada’s first legal cannabis companies. He envisioned the factory as ground zero not just for his business, but for an industry on the brink of the big time. So, he and his co-founder, Bruce Linton, paid \$5 million for the property, plus millions more to turn it into a weed wonderland, complete with climate-controlled growing rooms and pristine storage vaults. When press toured the operation, they couldn’t resist dubbing Rifici the Willy Wonka of Weed.

Today, Rifici no longer works at Tweed: he was kicked out before it became Canopy Growth, now the largest cannabis company in the world. Instead, he is chairman and CEO of Nesta Holding Co., a private equity firm he founded to invest in the global cannabis industry. Still, seven years after the fact, his decision to buy the factory seems prescient,

because the plant is making chocolate again—this time, infused with tetrahydrocannabinol (or THC, a natural compound found in cannabis that causes the high) and cannabidiol (or CBD, which has a calming, non-psychoactive effect).

On Oct. 17, 2019—exactly a year after the federal government legalized recreational marijuana—Canada lifted prohibition on a raft of alternative cannabis products: edibles, beverages, concentrates, topicals, tinctures and more. In addition to smoking dried flower, Canadians can now legally eat cannabis in a gummy, drink it in a tea, ingest it in a capsule or rub it on their ailing muscles in the form of a lotion—uses that are more discreet and carry less stigma than, say, smoking a joint. Canadians can now vape cannabis, too, though restrictions may be imminent; following a staggering number of deaths and hospitalizations linked largely to black-market vape cartridges, some provinces have banned certain vaping products and advertising, and Health Canada is monitoring the situation.

The arrival of these products, known in the industry as Cannabis 2.0, represents an even bigger business opportunity than the first wave of legalization. People like Rifici are betting that 2.0 products will appeal not only to those who already use cannabis, but to the 83 per cent of Canadians who don’t. If they’re right, they’ll have millions of new customers, many drawn to cannabis as a wellness product

rather than a way to get high. According to EY, 2.0 products will account for more than half of Canadian cannabis consumption by 2025, and Deloitte estimates 2.0 sales will total \$2.7 billion annually.

Cannabis entrepreneurs eyeing that prize face a dizzying array of obstacles, including strict regulation, fierce competition and an unenthused investor landscape. But Rifici bets he can hit the jackpot again, this time with Nesta, through which he owns, influences or otherwise has his hands in every aspect of the cannabis value chain: cultivation, extraction, research, development, retail and beyond. The companies under the Nesta umbrella may not be behemoths—the largest, Auxly, has a market cap of about \$375 million, small fry next to Canopy Growth (more than \$8 billion) or Edmonton’s Aurora Cannabis (more than \$3 billion). But for many of Rifici’s brands—vape pen companies, edible manufacturers and other businesses designed to compete in the 2.0 world—it’s finally show time. “That’s what I’m excited about: being able to wake up knowing we’ve created a lasting brand,” he says. “It would be nice to see one of them become the Johnnie Walker of cannabis.” It doesn’t have quite the same ring as the Willy Wonka of Weed, but it’ll do.

**T**he first thing you notice about Chuck Rifici is his bushy copper-and-grey beard. He’s a father of two who favours inconspicuous clothing—jeans, T-shirts, hoodies—and cars that are anything but: this past June, he drove his Ferrari in the Gumball 3000, an extravagant motor rally from Greece to Spain. On a brisk October afternoon, it’s his other ride, a black Lamborghini, that’s parked outside the Nesta office in Ottawa. The space is startup chic: glass walls, whiteboards, 20 youthful employees hunched over laptops. Inside Rifici’s office, a tongue-in-cheek poster warning of the hazards of “reefer madness” is the lone giveaway that you’re at a cannabis company.

Rifici never thought this is where he’d end up. Growing up in Ottawa, he watched Cheech and Chong movies—*Up in Smoke*, *The Corsican Brothers*—but didn’t actually smoke pot, put off by stigma and stoner stereotypes. In the 2000s, he earned a computer engineering degree at the University of Ottawa and an MBA from Queen’s. Ian McKay—a Queen’s classmate who is now CEO of Invest in Canada, an agency that solicits international investment—remembers Rifici, who earned his professional accounting designation in 2008, as an especially gifted student. “Not only was Chuck the smartest guy in the room, he was really good with understanding numbers and how they led to business planning,” he says. “He was generous with his

time and proactive in demystifying accounting to those who had challenges with it.”

Rifici worked a string of CFO jobs at Canadian tech firms, including the internet service provider TekSavvy and the mobile company Select Start Studios, which was acquired by Shopify in 2012. “I always joke that I was a terrible CFO,” says Rifici. “In retrospect, I wasn’t risk-averse enough. I had a taste for volatility.” On weekends, he played poker—he loved the thrill of betting with imprecise information. “I’m an optimist, but you usually want your CFO to be the least optimistic person in the company.”

That appetite for risk made Rifici the perfect candidate to become a pot trailblazer. In 2011, McKay, then the CEO of the Liberal Party of Canada, asked Rifici to volunteer as his CFO, in large part to overhaul the financial management of the party. The unpaid gig put Rifici in the right place at the right time: the following year, the party voted to endorse federal cannabis legalization.

By then, Rifici had come around to cannabis. In 2011, while reaching for something across a counter, he pulled a muscle in his back, collapsed and passed out in pain. Doctors prescribed hydromorphone, an opioid more than twice as powerful as oxycodone, and he found himself counting pills. He says the incident helped him realize how addictive opioids were, and how cannabis could be a viable alternative for pain relief. “It was the event that made me a little







## “I want one of our brands to become the Johnnie Walker of cannabis”

less judgmental,” he says. From then on, “I told myself if I could legally get into the weed industry, I would.”

So, Rifici educated himself about the nascent industry. He researched Canada’s medical marijuana regulations, attended events, visited medical grow ops in Colorado, and met with investors and experts. Soon, he was an expert himself. “He had the vision before anybody else,” says McKay, one of Tweed’s founding shareholders. “He attracted smart people because he did a lot of the lonely research and homework.”

One of those people was Tweed’s co-founder, Bruce Linton. Neither Rifici nor Linton work at the company they built together anymore. Tweed’s board kicked Rifici out in August 2014, alleging he had missed key deadlines in growing the business. Rifici sued for wrongful dismissal, and the company countersued; both suits have since been dropped. Rifici is diplomatic about the turbulent saga. “Ultimately, it came to a

point where Bruce and I were not going to be working together,” he says. “Bruce did a great job building value in the company.” In 2019, however, the alcohol giant Constellation Brands, which obtained a controlling stake in Canopy Growth through a \$5-billion investment, gave Linton the boot, too.

Ousted from his own company, Rifici was nevertheless bullish on the cannabis industry. “He could have gone into a corner and disappeared,” says McKay. “But he still had the skill, the knowledge, the reputation, the experience. He knew the sector was bigger and broader than just Tweed or Canopy.”

**T**oday, Rifici lives in a very different cannabis industry. In 2013, the year he co-founded Tweed, you could count the number of legally licensed cannabis producers in Canada on your fingers. Now, there are more than 200. Rifici may face stiffer competition, but he also has more horses in the race. After Tweed, Rifici sold his remaining stake in Canopy Growth and used the windfall to found Nesta (Nesta is Bob Marley’s middle name), which owns or has a stake in five distinct cannabis companies. Its portfolio includes Wikileaf, a leading cannabis price-comparison website based in Seattle (“every industry has an Expedia,” he says); Feather, a vape pen company that he founded; Burb, a B.C.-based retailer that sells cannabis products, apparel and accessories; as well as Dixie Brands, an American business that already sells chocolates, gummies, mints, topicals and other cannabis-infused products in the U.S. Nesta’s crown jewel is Auxly Cannabis Group, itself a sprawling family of cannabis brands that grow, sell, research and develop products including edibles, beverages, gel capsules, vape cartridges and old-fashioned flower. Auxly’s network of cultivation facilities, which the firm either owns outright or has partnered with, has the capacity to produce 100,000 kilograms of marijuana every year—that’s about 2.5 grams for every Canadian.

In 2018, pot stocks like Auxly soared. “If you had the word cannabis in your company title, people were throwing money at you. It was investing in a dream,” says Trisha LeBlanc, a CPA who leads Grant Thornton’s national cannabis practice. But since the summer of 2019, cannabis stocks have tumbled—the largest ETF in the cannabis sector, for instance, lost half its value in the year after legalization.

Industry watchers are unperturbed. They say volatility is only natural in cannabis, a sector dominated by skittish retail investors who pounced when the stocks were hot and retreated when they were not. Such investors balk at bad news, such



## Standing out in the 2.0 market is crucial, yet incredibly difficult

as a company posting poor quarterly results or running afoul of regulations. “News like that comes out and the whole market goes down,” says LeBlanc. “Investors are now at a stage where they’ve lost patience. They’re saying, ‘When am I going to see the return on my money?’”

It’s a valid question. Cannabis companies were supposed to win big in the post-legalization era. Instead, the first year was an onslaught of failures and fumbles. Provinces rolled out wildly divergent retail models, customers waited weeks for their orders because of marijuana shortages, and many existing cannabis users opted to stick with the black or grey markets. Most provinces and territories have failed to turn a profit selling marijuana; the Ontario Cannabis Store, for one, posted a \$42-million loss for the fiscal year ending March 31, 2019. Cannabis companies have also reported consistently underwhelming performance—despite the hype, few of them have actually made any money. To make matters worse, institutional investors seem utterly uninterested in giving them any. Though Canadian banks have begun lending money and raising capital in the cannabis sector, mutual funds and pension funds have so far steered clear of investing in the space. “Institutions like stable cash flow, profitability and proper governance,” says Mitchell Osak, the leader of MNP’s national cannabis consulting practice. “We don’t have that yet in an industry that’s a year old.”

Rifici, like the rest of the industry, is hoping that Cannabis 2.0 will help him out of this rut. The second

wave of legalization promises new customers and fresh sales—in fact, according to research by EY and the cannabis data insights company Lift & Co., Canadian customers were asking budtenders for edibles on a daily basis long before they were legal.

Cannabis 2.0 is also helping cannabis companies access something they desperately need: cash. In the past two years, alcohol, tobacco and pharmaceutical giants—including Molson and the cigarette maker Altria—have invested billions in Canadian cannabis companies like Hexo and Cronos. The majority of these partnerships have focused on developing 2.0 products, such as vaporizers and cannabis beers and sports drinks. “These big companies want to be invested because they understand these products have the potential to replace them on the shelf,” says LeBlanc. “It’s a bit of hedging strategy.” Auxly, one of Rifici’s companies, received \$123 million from Imperial Brands in July 2019, a move that will grant the family of cannabis brands access to the British tobacco company’s proprietary vaping technology. “It helps you stand out from the noise,” says Rifici. “Auxly can no longer be overlooked as perhaps it once was. Now, I think a lot of people and industry observers have to ask, ‘What did Imperial see?’”

Standing out in the crowded 2.0 market is crucial, yet incredibly difficult. Health Canada strictly regulates how cannabis companies advertise their products and requires standardized packaging, so consumers have few ways to tell one company’s gummy from another’s. According to Deloitte, only 13 per cent of Canadian consumers surveyed look for familiar brands when purchasing cannabis products. In other words, brand loyalty doesn’t exist yet. The early days of Cannabis 2.0 will be a period of trial and error, in which consumers slowly figure out which products, sizes and flavours they like. “Everybody has their own view as to how that market segments, which products they think will be in the best position to serve consumer needs,” says Rifici. “But until we actually see those products on the shelves and see consumers vote with their dollars, we don’t know.”

For cannabis companies lucky enough to create a popular product, the key will be keeping it in stock. Staying on shelves comes down to business fundamentals: developing sufficient cultivation capacity, perfecting the supply chain and establishing the manufacturing muscle to make sure your product is always available.

Osak offers another piece of advice for cannabis companies: stay agile. “This industry has not had a very good line of sight in advance to what regulations will be,” he says. “The regulations are evolving and subject to change without much notice.” For example, in 2019, Health Canada made significant changes

# TRAILBLAZERS

The CPAs building Canada's cannabis industry



**DAVE DIPERSIO**  
Senior vice-president of  
corporate services, Nova  
Scotia Liquor Corporation  
Halifax

DiPersio managed the implementation of cannabis retail in Nova Scotia, a job that entailed opening 12 shops (most of them located inside existing alcohol shops), setting up an e-commerce portal and stickhandling supply chain, warehousing, distribution and more.

**On Cannabis 2.0:** “We think it’s going to be a pretty slow introduction to market. The biggest challenge with this wave is product education. There are just so many dimensions: what’s the intended use of the product? Does it have allergens or gluten? Is it carbonated or caffeinated?”

**On his first exposure to cannabis:** “I’m still not a consumer. When I started this job, I was so naive. My first experience was using oregano to figure out how a vaporizer works.”



**KASIA MALZ**  
CFO, Lift & Co.  
Toronto

Malz handles financial strategy, investor relations and more at Lift & Co., a cannabis data insights company that publishes online product reviews, hosts events and trains budtenders.

**On Cannabis 2.0:** “There’s enough confusion around

cannabis as it is: the difference between strains and brands, CBD versus THC. Brands are going to need even more information now. We’re providing them with data insights so that they can understand their consumers and what they think about their products.”

**On her first exposure to cannabis:** “I was never a significant consumer of cannabis, actually. But since joining the company, I’ve become more educated about the different types of products and I’ve figured out what’s right for me.”



**TRANG TRINH**  
Founding director and  
CEO, TREC Brands  
Toronto

Trinh runs three brands in the TREC family: Blissed, a female-focused cannabis company; Wink, which is dedicated to premium products and social experiences; and Thumbs Up Brand, a service that aims to help eradicate the black market by finding the highest-quality legal cannabis at the best prices. All of TREC’s brands donate 10 per cent of their gross profits.

**On Cannabis 2.0:** “We’re seeing all kinds of amazing cannabis products: lotions, teas, chocolates. They are easier ways for consumers to try cannabis, versus smoking a joint.”

**On her first exposure to cannabis:** “When I was in middle school, my cousin asked me to pass a package along to someone in my class and collect money in return. I later found that it was cannabis and I was mortified. I cried. I couldn’t believe it.”

to its licensing application process and amended rules around 2.0 products. In such an unpredictable landscape, says Osak, “you can’t be rigid in your strategy. What you can be is adaptable and reactive.”

**B**eyond regulation, Rifici—and every other Canadian cannabis entrepreneur—faces a greater existential threat: international competitors. As the first major country to legalize cannabis, Canada has a first-mover advantage, but that won’t last forever. “There’s a sentiment that it’s a matter of when, not if, cannabis is going to be federally legal in the U.S.,” says LeBlanc. The American cannabis market is more likely to take a free-market approach with fewer regulations, where ads, flashy packaging and celebrity endorsements will be fair game, allowing companies to differentiate themselves. “Depending on the state, they’re going to be able to experiment a lot more than we are as the industry matures,” says CPA Luke Biles, a former financial controller and operations manager for a cannabis company who now leads MNP’s cannabis practice on Vancouver Island. He adds that American companies will likely suck up the capital and market share that Canadian companies once enjoyed.

That will spell disaster for some homegrown cannabis businesses. “If U.S. federal cannabis legalization happens, Canadian companies who have not secured a strong, sustainable competitive position by that time risk being overwhelmed,” says a May 2019 Deloitte report, which predicts that half of Canadian cannabis firms will eventually fail. “Without a doubt, a lot of Canadian companies are going to face major difficulties,” says Osak. “But could we develop companies in this space that compete on the world stage? Absolutely. They already exist.”

Rifici wants to lead one of them. Ever the optimist, he sees the glass as half full. He expects at least 50 countries will legalize by 2025. Sure, that will mean more competitors, but it will also mean a much larger market. He’s already preparing for it: Auxly has an outdoor hemp cultivation facility in Uruguay, and Rifici plans to sell his brands’ products in Europe. “There’s a lot of capital left in the U.K. and Europe,” he says. “Over the next three to five years, there will be a lot of value and opportunities there.”

If and when that global market arrives, Rifici’s experience, reputation and Rolodex of cannabis connections will be priceless assets. Osak says that if Canada’s cannabis pioneers can develop global partnerships, “they will be valued all over the world.” It’s not hard to imagine, years from today, international entrepreneurs calling the man who bought a chocolate factory, hoping he can be their golden ticket into the world of weed. ♦



SYSTEM  
SYSTEM

CRASH  
CRASH

# THE NETWORKS THAT RUN OUR BANKS, AIRLINES, HOSPITALS AND OTHER VITAL SERVICES ARE IN DANGER OF COLLAPSING AT ANY MOMENT. WELCOME TO THE GOLDEN AGE OF MELTDOWNS.

BY BRIAN BETHUNE

**Eleven years ago** in Washington, D.C., Metro train 112—travelling along a track wired so that operators would know precisely where all rolling stock was located—crashed into another, effectively invisible train. Nine people died. Three years later, in 2012, the stock trading system at Knight Capital, a Wall Street financial services company, went into what could charitably be described as psychosis and executed four million nonsensical trades in 45 minutes. Overnight, the company lost more than half a billion dollars; within a year, it no longer existed as an independent firm. And in 2015, Washington state announced that the criminal tracking system used by its corrections department had been miscalculating prisoner release dates for 12 years, resulting in nearly 3,200 felons being released too early. By the time the state realized its mistake, two of the prisoners had been charged for violent crimes committed while they should have been in jail.

Isolated incidents, yes, but all of them linked by common DNA, according to Chris Clearfield and András Tilcsik, co-authors of *Meltdown: What Plane Crashes, Oil Spills, and Dumb Business Decisions Can Teach Us About How to Succeed at Work and at Home*, which won the 2019 National Business Book Award. You can blame these disasters—and the many others that show up in the pages of *Meltdown*—on any number of factors: the Internet of Things, the continuous and almost organic layering of lines of computer code upon lines of computer code over the years, the leaderless and unpredictable power of social media, or—in a more root-cause explanation—our lust for speed and efficiency. But the end result is the same: the systems that facilitate (travel, banking) and even rule (medical care, 911 calls) our lives are more complex and more closely

linked than ever before, with ever-shrinking margins for error. As a result, the authors and many of their contemporaries argue, we are living in the “Golden Age of meltdowns.”

According to Clearfield (a pilot, former derivatives trader and founder of the research and consulting firm System Logic) and his co-author, Tilcsik (Canada Research Chair in Strategy, Organizations, and Society at the University of Toronto’s Rotman School of Management), the shared DNA of these meltdowns comes from two factors in combination. Systems are far more complex than they once were, more like webs than through lines. A car assembly plant, for instance, is complicated but linear—the manufacture moves from station to station, and if one knot in the line unravels, it is immediately clear where the failure is located, and movement can be halted or rerouted until a repair is completed. But internet-based systems and some physical plants—a nuclear power plant, say—are more complex, with parts interacting in intricate and often invisible ways. When something goes wrong, it can be hard to pinpoint the problems and easy to make it worse with an ill-informed diagnosis. Sometimes, as in three years of Brexit turmoil, no one “can control the argument and control how it evolves,” says Rick Nason, a risk management and complexity consultant.

Compounding the complexity is what engineers call “tight coupling.” Slack, which causes redundancies and slowdowns but adds time and space for fixes, is increasingly squeezed from systems. Now those systems all have to run like a Prussian railway, with the precise number and combination of inputs always available—and the system can’t be shut down while being repaired. Complexity plus tight coupling,





basic features of the contemporary socioeconomic landscape, means breakdowns often come at system operators like rockets out of a fog bank, fired randomly and hitting targets less by design than happenstance.

Nor are fallbacks generally available, adds Clearfield. “Off the top of my head, I can think of perhaps five examples of airlines grounding for days because of a problem with their reservation systems,” he says. “Part of me is always thinking, ‘Can’t you just send paper tickets to people?’ No, they can’t. They don’t have the infrastructure for that anymore. There is no roomful of people typing tickets or cheques on typewriters now.”

Canadian public servants can swear to that. When the federal government decommissioned its 40-year-old payroll system, two-thirds of its employees were under- or overpaid by the new, problem-riddled Phoenix pay system, and they could secure no quick relief, such as a cheque made out in the correct amount.

Systems are not simply complex within themselves but also in the ways they interact with other systems. “We have made our systems more efficient,” Clearfield says, as much in labour and material costs as in any other area, “so efficient that we can’t do that kind of reversion as easily as before.” So efficient, in fact, as to open new doors for malicious actors: as Clearfield and Tilcsik discuss, car hijackings, which not so long ago required physical presence, can now be done remotely, by hacking into a vehicle’s internet connection. Interconnectivity is wonderful, right up until the moment it isn’t.

**Meltdown’s diagnosis** is as disturbing as it is convincing. So what can be done to avert these disasters? The book’s prescriptions for public policy and private enterprise are “more simple than easy,” says Clearfield. For the most part, they turn on human psychology. He notes how, counter-intuitively, more warning alerts can lead to less safety. A study of bedside alarms in intensive-care hospital units, for instance, found that an alert sounded every eight minutes. Since 90 per cent of them were false positives, the natural boy-who-cried-wolf reaction from harried staffers “was to tune them out.” Nason calls that “risk homeostasis,” a situation where safety bells and whistles lead to a smug and dangerous assumption of security. In the same way, jaywalkers pay closer attention to oncoming traffic than people crossing at a light or crosswalk—the increased safety features “do not actually increase your safety.” The solution to that problem is to prune safety indicators and restrict attention-grabbing alerts to true emergencies, write Clearfield and Tilcsik. On commercial aircraft, for example, a low-level advisory like an amber text message will inform the pilots if fluid is low in a hydraulic system; a noisier, higher-level alarm arrives only if the fluid actually runs out.

In the end, transparency, aided by a healthy dollop of humility, has to be the goal. “Transparency is huge,” says Clearfield, who adds you need to understand what’s going on in your system, treat the data that it gives you as a learning opportunity, and listen to it. Clearfield offers the example of a physician who investigated a close call in a University of California



hospital (a patient received 38 times the requisite medication despite three separate alerts), and urges an organizational structure in which the CEO sends a thank you note not just to the employee who makes a great catch, but even to the one who flags a suspected error but turns out to be wrong.

That's the very definition of "simple but not easy," requiring the upending of standard notions of hierarchy and other innate human tendencies. One effective strategy, however it's termed—psychologists call it "prospective hindsight," while Clearfield prefers "premortems"—is to inspire people's imaginations. If you ask team members if they've covered any foreseeable problem that might plague a new launch, the answer is liable to be yes. Instead, ask them to imagine that it's now two years later and their project has gone grotesquely wrong—what could have happened? "The premortem is sort of a mental hack that taps into our love of storytelling." It flips the incentive by rewarding negative thinking that can save the day.

Diversity among safety watchers is also an enormous help, argues *Meltdown*. The more people within a system resemble one another—in any combination of education, background, skin colour or chromosome—the more they will unconsciously defer to one another's assurances, even when doubts niggle in the back of their minds. The more outsider-ish participants

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are—again by various combinations, even simply coming from elsewhere in the organization or from outside the firm entirely—the less automatic the assumptions, the more careful and thought-through the arguments.

Aviation and nuclear power, because the stakes are so high, have always been the most scrutinized industries in terms of system security. Despite continuing setbacks in the aviation sector, Clearfield is emphatic in his praise of how the airline industry and government regulators have built continuous questioning into their best practices. "They have all these checklists that question even the captain," he notes, referencing studies that showed that accidents were more prevalent when the senior pilot was at the helm because the junior pilot was reluctant to speak up and upset the hierarchy of authority. "In the 1990s, the Federal Aviation Administration made a

bold move by effectively saying, 'Look, we're not going to get safer by fining more people but by figuring out how this industry can operate in a different way.' That was the primary driving factor and it turned out to be really powerful in making aviation safety-oriented. Now there are 100,000 flights a day, almost all of which land safely."

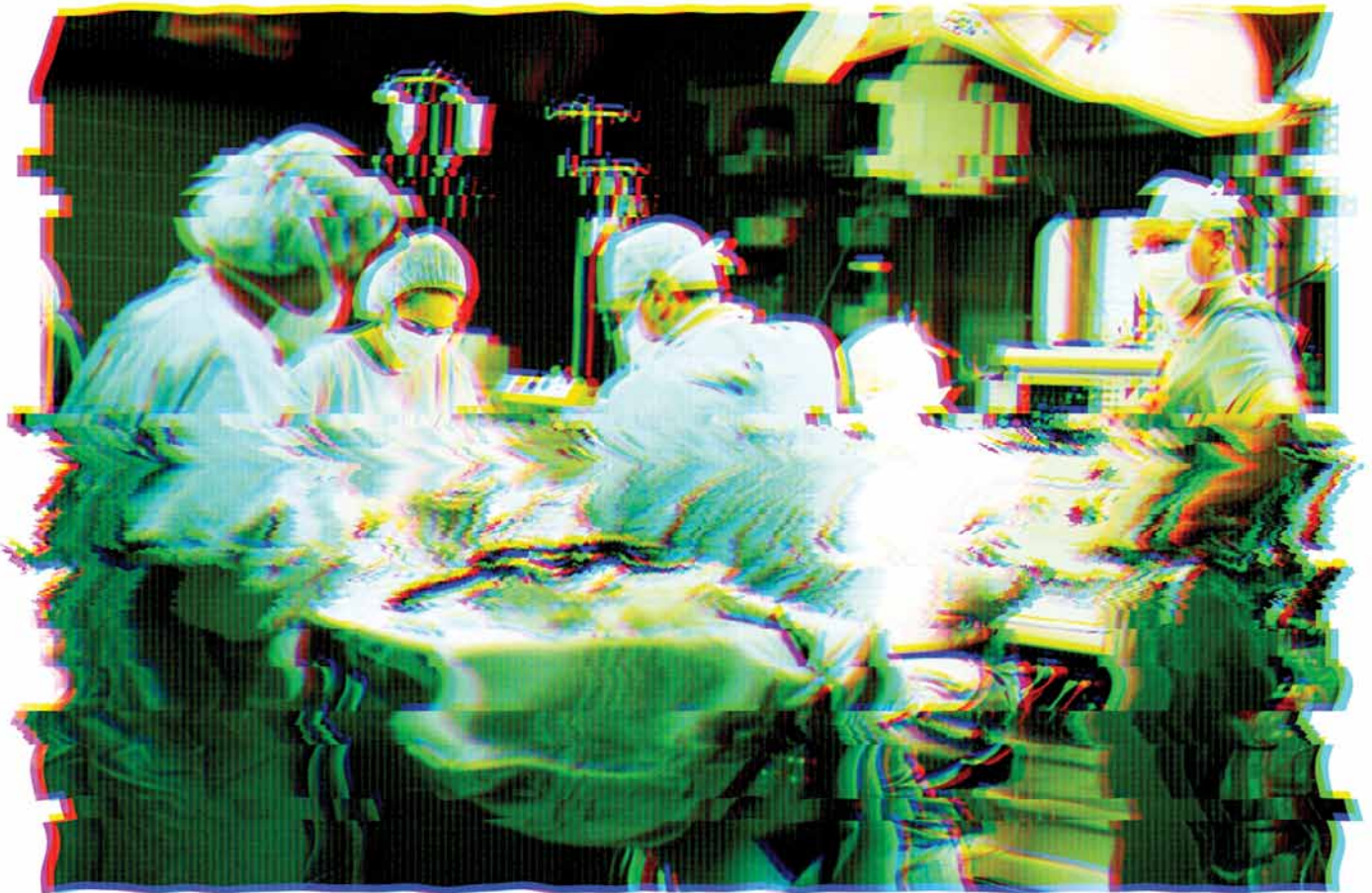
But, as Clearfield's earlier comments on flight reservations prove, flight safety doesn't mean airlines have avoided more ordinary business meltdowns, less deadly but extremely damaging nonetheless. For most businesses—which now have supply lines, turnaround times and distribution schedules as complicated and tightly coupled as a power plant's—almost all crises have core causes and/or consequences that are financial or reputational (which, ultimately, come to the same thing). Those hard-to-see-coming breakdowns are what worry businesses today.

**When it comes** to preventing meltdowns, a firm's in-house financial professionals, especially its accountants, are key figures. "For any business," Clearfield repeatedly comments in his book and in an interview with *Pivot*, "there is data in your system. You just have to find a way to get at it and then read it."

CPAs are in a prime position to do just that, says Tashia Batstone, CPA Canada's senior vice-president of external relations and business development. "Data scientists can come up with lots of great, valid information, but they're not necessarily able to translate it in a way that's useful, because they may not have a deep understanding of the business," she says. "That's the sweet spot for CPAs." She envisions accountants as trusted advisers who can ensure information is valid, reliable and consistent, and then translate it into insights that help senior management drive the success of the business. "It's clear that CPAs are trying to pivot from being number crunchers to being business advisers," Nason adds. "I think that's absolutely brilliant."

Financial professionals are always involved in coping with any business breakdown "because it's very difficult for any company to have a crisis that doesn't have a financial component," says Jacqui d'Eon, who spent 10 years with Deloitte Canada before establishing JAd'E Communications, a firm that specializes in reputation management and corporate crisis communications. But those professionals also have a role to play in preparing for catastrophic possibilities that affect more than finance. When H1N1, a highly unusual variety of influenza, began infecting children and working-age populations in the spring of 2009, Deloitte was concerned it would sideline scores of employees. So Deloitte assembled a task force, which included the CFO, to look at all aspects of the business: "How would we pay people, for example, if our payroll staff were not able to work?" says d'Eon. "Can we move work from one place to another if an entire project team got sick? What alternate systems could we establish?" In that case, professional accountants were managing company-wide operations and systems management. "Accountants," says d'Eon, "have a whole set of great skills."

In managing risk, the first thing to do is determine whether you are in a "complicated" or "complex" environment, says Nason.



**IN ICUs, ALERTS SOUNDED EVERY EIGHT MINUTES. SINCE 90 PER CENT OF THEM WERE FALSE POSITIVES, THE NATURAL BOY-WHO-CRIED-WOLF REACTION FROM HARRIED STAFFERS “WAS TO TUNE THEM OUT.”**

A complicated environment calls for the checklist approach: “Find the experts, find the best practices,” such as premortems.

A complex environment, though, is emergent and social. It’s Brexit, for example, or a flock of starlings “all moving in one pattern and then another, completely unpredictable and completely leaderless.” Or, in Nason’s preferred analogy, it’s a teenager. “An argument that worked with teens at 10 o’clock doesn’t work at 10:15 because teenagers are in a social system where they’re interacting with their peers and constantly adapting. You don’t ‘solve’ a teenager, right?” Following a

checklist with a teen will likely lead to unattractive and unintended consequences, he says. “As a parent, sometimes you’ve got to take a deep breath and say, ‘Okay, I can’t fix this. So how do I manage it?’” says Nason. “Business managers should do the same.”

Complex situations require “a great deal of humility on the part of the manager, which is probably the major hindrance to managing complexity: you have to think and manage, not solve.” And one aspect you have to think about, says Nason, is that “risk” should have its neutral element. All crises are also opportunities, and the unexpected may be good news. That concept, the opposite of treating risk entirely as “the Department of No,” injects “a totally different culture into an organization, so that people are scanning ahead for good things as well as bad.”

Accountants, Nason adds, must have the insight to realize that questions of value almost always have shades of grey. “And shades of grey imply risk and the need for thinking people as guides,” he says. Accountants are especially adept at pointing out that even numbers that look great can actually be hiding something—“how they could, if you did this, lead us in a different direction.”

It all comes down to Donald Rumsfeld’s famous remark, that there are known knowns, known unknowns and unknown unknowns out there waiting for us. Humility, transparency and fostering a workplace culture that rewards questioning from all ranks are the best guardrails we have. ♦





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## EXTRAORDINARY ITEM

### QUICK SILVER

Polaroid's banking on nostalgia—again—with a small device that lets social posters embrace the power of print **BY MATTHEW HAGUE**

Instagram users post more than 95 million new images every day, and Polaroid Originals is hoping some of them want hard copies. The new Polaroid Lab, a retro-looking device, costs US\$130 and links to smartphones to convert digital shots into Polaroid's iconic, white-framed prints.

When Polaroid stopped making film in 2008, a company called the Impossible Project began manufacturing film for their vintage cameras and developing new hardware, too. Then in 2017, the Impossible Project acquired the once-popular, twice-bankrupted camera company's intellectual property and rebranded as Polaroid Originals. Driven by renewed interest in tactile experiences, instant-film sales are growing by five per cent per year, and are expected to reach revenues of US\$1.8 billion by 2021.

The challenge is that, while Polaroid was floundering in the early 2000s, rival Fuji pushed ahead on the tactile front. Shipments of Fuji's wildly popular \$90 Instax instant camera reached 900,000 units per month in 2019, partly because Taylor Swift endorsed the device. For comparison, the Impossible Project sold 28,000 refurbished Polaroid cameras and 1 million film packs in all of 2015.

The Lab is banking on another powerful marketing tool: nostalgia. "A lot of people likely have fond memories of Polaroid from the 1980s and '90s," says Darren Dahl, a marketing professor at UBC's Sauder School of Business. "That's a major advantage. It can help them cut through the thousands of other marketing messages people hear every day and reconnect with people."

Still, the nostalgia factor doesn't guarantee success. "To me, the Lab is less of a pivot than a grasp," says Barry Cross, professor of operations strategy at Queen's Smith School of Business. "They could have leveraged the Polaroid name to launch a web-based service that would have been lower cost and lower risk. People might want to print photos on Polaroid film. That doesn't necessarily mean they want another device collecting dust on their desks." ♦



PHOTOGRAPH BY DANIEL NEUHAUS



Kourtney Kardashian and Gwyneth Paltrow are among collagen's boosters

HEALTH

## LIQUID ASSETS

Powdered, drinkable collagen is packaged and priced like perfume and promises to slow signs of aging. Judging by sales, it's an easy claim to swallow. **BY WING SZE TANG**

When Kourtney Kardashian introduced the first item from her new lifestyle brand, Poosh, earlier this year, it wasn't the usual celebrity-endorsed lipstick. Instead, the reality TV star launched what she described as her longtime beauty secret: collagen powder. She was right on trend. Drinkable collagen is the dietary supplement industry's latest darling, marketed as both a health product and a beauty must-have, and sold in retailers like Anthropologie, Urban Outfitters and Sephora. The promise is that collagen—the main structural protein in the body, which dips with age—can be taken orally to help smooth fine lines, add lustre to hair and strengthen joints, bones and muscles.

It doesn't seem to matter much that the science on collagen supplements—which are made from bovine or marine sources—is still being debated. A recent *Journal of Drugs in Dermatology* review

of 11 randomized, placebo-controlled trials found “promising” preliminary results for using collagen to treat skin aging. But as Dr. Mark Moyad, director of preventive and alternative medicine at the University of Michigan, told *Time* magazine, “The studies [on collagen] are weak in general”—too small and too short. There's not enough evidence that consuming collagen will actually increase the body's levels of it, he noted.

Nevertheless, ingestible collagen has become so popular that growth in the category is significantly outpacing growth of the overall dietary supplements business. “For collagen supplements, in 2019, we're estimating sales will reach US\$230 million in the U.S., an estimated [year-over-year] growth of 32.9 per cent,” says Claire Morton Reynolds, senior industry analyst at *Nutrition Business Journal*, which specializes in

data insights for the health industry. At this rate, the collagen category is expected to exceed US\$400 million by 2022. By comparison, adds Reynolds, the overall supplements industry grew at about six per cent last year.

Despite longtime enthusiasm for “nutricosmetics” in Asia and Europe, the drinkable collagen market in North America has only taken off in the past five years. Several factors are driving the momentum, and novelty is high on the list: “Consumers are interested in supplements that aren't your typical pills,” Reynolds explains. Many have started treating supplementing as a stylish lifestyle ritual: stir a scoop of Kardashian's product, called Pink Moon Milk Collagen Latte (US\$49), from its pink-lidded canister into a cup of warm water, sip it like an Americano misto and call it self-care.

Last year, Gwyneth Paltrow, who normalized the idea of splurging on alt-health remedies, launched a vanilla-cake-flavoured collagen supplement called Goop Genes. The pale pink marine-sourced powder is sold in 12-gram single-use packets, which come in a box that bears a rose-coloured double helix. The supplement is carried at fashion retailers like Nordstrom and Net-a-Porter—US\$28 for a five-pack or US\$95 for a month's supply of 30 packets.

Vital Proteins, the company that collaborated with Kourtney Kardashian on Pink Moon Milk, is often credited as the first to make drinkable collagen stylish. Launched in 2012, it initially targeted fitness buffs, with a strategy focused on product education. But soon the company realized that 80 per cent of the people ordering from its website were women—and they were buying for beauty benefits, not for joint repair, as Caryn Johnson, senior vice-president of marketing for the company, explained in a recent interview with *Fast Company*. So it pivoted, targeting millennial women interested in beauty and wellness. “The customers chose us as a beauty brand,” says Johnson—and the company ran with it, showcasing its



products at beauty trade shows and updating its packaging with brighter, more feminine colours.

In Canada, Burnaby, B.C.-based WithinUs Natural Health is emerging as a standout in the category, taking a similar approach that emphasizes premium positioning (a 50-serving box of TruMarine Collagen costs \$75), careful ingredient sourcing (its collagen comes from wild, sustainably sourced fish) and celebrity buzz (Michelle Obama's facialist has name-checked the brand's supplements as a skin care must-have). The strategy has been so successful, WithinUs ranked 35th on *Report on Business's* 2019 list of Canada's top growing companies, with revenues of more than \$2 million in 2018, and three-year revenue growth of 1,378 per cent.

As the market for collagen grows, more accessible formats—such as fruit-flavoured collagen water and collagen coffee creamers—have entered the market. As for what's next, there's an emerging sub-niche of vegan collagen boosters, says Reynolds. There are no non-animal sources of collagen, so companies such as Richmond, B.C.-based Organika Health Products are marketing drinkable powders that encourage the body to make more of its own collagen. Reynolds also predicts more targeting of male consumers: "I think that's where the opportunity lies, because collagen does have a lot of benefits outside of hair, skin and nails." It's a good source of protein and is said to help post-workout muscle recovery and repair.

The relative novelty of drinkable collagen in North America means there's space for newcomers to break in. "The market is very fragmented," says Aleksandra Hancas, beauty industry analyst for market research company the NPD Group in Canada. Given the prestige skin care market is now a \$1-billion business in Canada, products tapping into consumer appetite for eternal youth—ingestible or otherwise—have lots of room to grow. ♦

## OUTWARDS

# SEA CHANGE

Cruise lines are competing for passengers with themed voyages and excursions that cater to every interest **BY BRIAN BANKS**

Ketchikan, Alaska, is a popular port of call for cruise ships travelling along the Alaskan panhandle and B.C.'s northern coast. Mountains, waterfalls, and totem poles emblematic of Tlingit, Haida and Tsimshian cultures are the main attractions. Some visitors lace up their hiking boots. For others, the footwear of choice is less conventional: running shoes.

"Locals in the area host us and bring us outside of where the normal excursions go, and we get to run," says Jenny Hadfield, co-owner of Marathon Expeditions, which, as the name suggests, offers cruises tailored specifically to runners. Her company, run jointly with husband John Bingham, offers running trips annually to Alaska, Hawaii and the Caribbean. "Last year in Ketchikan, we were at a bridge in the middle of the trail and all of a sudden someone yells, 'Bear!' There was a mama bear and a cub crossing the stream near the finish line. It was amazing."

## AT LEAST 30 NEW CRUISE SHIPS WERE LAUNCHED WORLDWIDE IN THE PAST TWO YEARS. ANOTHER IS EXPECTED EVERY MONTH FOR THE NEXT DECADE.

It's not exactly the stereotypical image of cruising. Marathon is Exhibit A in the ongoing reinvention of the cruise experience. Or, depending on your perspective, the reinvention of running, golf, motorcycling, concert-going, wine-tasting, Christmas-market shopping—in short, for virtually every land-based activity, there is, or soon will be, a themed cruise itinerary tailored to it. "People are cruising for all different affinities," says John Mast, the

Vancouver-based senior director of global cruise marketing at Expedia CruiseShipCenters. "While that's always been true, as the industry has matured, organizers are getting far more sophisticated."

Themed cruises—or "affinity cruises," in biz lingo—are on the rise because the cruise industry on the whole is booming. Total passenger volume grew 24 per cent from 2013 to 2018, reaching an annual total of 26 million travellers, with 27.6 million passengers forecast in 2020. At the industry's biggest annual trade show in 2018, Arnold Donald, CEO of Carnival Corp., called it a "golden age." At least 30 new ships were launched worldwide in the past two years, and Mast says that's expected to continue at the rate of one ship a month, on average, for the next decade.

A recent report by Deloitte says affinity cruises and a greater emphasis on land-based activities are important parts of this growth story. Cruise travellers—especially gen-Xers (born between 1965 and 1980) and millennials (born between 1981 and 1996)—are increasingly less enticed by opulent vessels and more interested in learning about locations they visit and taking in experiences that "delight them." "As millennials

embark on their first cruises, they have an appetite for heightened personalization and customization as compared to prior generations," the Deloitte report says. Offering smaller affinity cruises that appeal to individuals' interests—rather than cookie-cutter trips on 5,000-passenger vessels—is one way for operators to win those new customers. "If the old way of competing was with a better [ship and contents], the new way of competing



focuses on the experiences that happen on or near the vessel.”

Hadfield and Bingham founded Marathon 13 years ago. As co-owners of a running training program and a race-production company in Chicago, they wanted to get like-minded people vacationing together. “It was a bit of a challenge getting started because runners at that time weren’t necessarily cruisers,” says Hadfield. “But little by little, we’ve gained some attention.”

Marathon doesn’t operate its own ships. Instead, it books groups—typically 100 to 200 runners—onto larger cruise ships from established lines like Norwegian and Royal Caribbean. Its itineraries include off-ship 5- and 10-kilometre races and, in the case of its Hawaii trip (from US\$3,000), a half-marathon on the legendary Kona Ironman course. “Everybody just loves the bragging rights on that: ‘I ran the Ironman course,’” says Hadfield.

Other affinity cruises feature different kinds of off-ship activities. Golf lends itself well to cruise-based travel—instead of building a vacation around a road trip or spending a week anchored at a single resort, passengers can visit an array of coastal courses. Ditto for lovers of markets, music or wine: Tauck, one of North America’s older tour companies, offers voyages that visit historic Christmas markets in Germany, concert halls along the Danube and renowned wine-and-food locales in Paris, Lyon and Provence. Tom Armstrong, Tauck’s corporate communications manager, says these themes are a response to passenger demand. “The cruise industry has become much more segmented in recent years, and the growth in themed cruises—or those otherwise targeted to a particular group of travellers—reflects that trend,” he says.

Another popular, albeit grittier, option is ETA Motorcycle Cruises, whose primary destination focus is islands in the Caribbean. “They load all the Harleys on the ship and then at each port they unload them and go riding,” says Expedia’s Mast, who clarifies that these aren’t biker gang affinity groups. “These are dentists and accountants—the baby boomer bikers.” ♦

## UNMUDDYING THE WATERS

Among the items a growing number of cruise-ship passengers can expect to find in their cabin welcome kits these days are refillable stainless-steel water bottles. Their deployment is just one policy of many—including low-carbon fuel use, local food sourcing and proper waste management—that reflect a growing industry-wide emphasis on sustainability. According to Deloitte, green practices have gone from being “niche” to a “basic demand.” Other examples include:



- adding sulfur scrubbers to ship exhausts
- building new ships with cleaner LNG (liquefied natural gas) and/or electric hybrid systems
- using electric shore-power technologies to eliminate engine idling
- eliminating single-use containers
- developing biodegradable lubricants that can be ingested by fish
- creating dedicated environmental officer crew positions
- adopting tracking tools and protocols to avoid marine wildlife collisions

ILLUSTRATION BY MATTHEW BILLINGTON; PHOTOGRAPH BY ISTOCK

# SPINNING YARN INTO GOLD

Four essential stories that every business needs to tell

BY BRIAN BETHUNE

In *Stories That Stick*, author Kindra Hall proclaims that stories are the most important, if underutilized, tools in any business's kit. So, does Hall practise what she preaches? Do her stories actually stick? The short answer: like burrs.

Hall is a professional storyteller who is well-versed in the neuroscience of human communication. Evolution has turned humans into the story species: stories are how we learn, what launches us into action and how we come to empathize with and trust those outside our immediate orbit. Stories grab attention and, if they convey authentic emotion, stimulate the release of oxytocin, the “love chemical” that, for example, binds mothers and newborns. Their details “stick” in the memory long after other, more data-driven pitches have evaporated, by activating what is known as HOME (human oxytocin-mediated empathy)—a brain circuit that encourages learning by providing us with small, pleasurable jolts when we recall good or memorable things. It's the same mechanism that allowed pre-literate societies to keep oral histories alive for centuries.

Crucially, research shows a degree of synchronization between the brains of the teller and the audience. The latter become “co-creators” as they are pulled into the world of the story, which they subconsciously meld with their own, a phenomenon Hall sums up in a neat turn of phrase: “Stories don't just make us like each other; they make us *like* each other.” All this, when delivered by engaging stories—including one of a neuroscientist impelled into oxytocin research after Clint Eastwood's *Million Dollar Baby* reduced him to tears—adds up to any business's Holy Grail: prospective customers whose attention is willingly engaged.

Having demonstrated the science behind our attachment to narrative accounts, Hall turns to the nuts and

bolts of effective stories. They need four elements: identifiable characters, authentic emotion, a significant moment and specific details. They require a tripartite structure, a beginning, middle and end that Hall dubs “normal” (a slice of everyday life that features a chronic problem that frustrates or saddens the character); “explosion” (not a literal blow-up, but the product, service or insight that solves the problem); and “new normal” (happier than the old normal).

Every business, Hall asserts, has four essential stories to tell. There is the purpose story, which helps rally employees in hard times. For the customer story, Hall includes helpful techniques companies can use to shape client responses into the sort of detail-rich testimonials that are marketing gold. The value story is about what a company offers customers; often that

Hers was the perfect, emotionally moving founder story, but it wasn't generating revenue. Although vets willingly signed on to the service, which was easy to use and risk-free, real success needed a fuller engagement from them. They had to sell the plan to distraught owners. So Cannon crafted a value story around what VetBilling offered veterinarians, not just their clients. It was a story of people who entered their profession because they loved animals but were kept awake at night by having to turn away sick pets in order to maintain a solvent business. The story wove in how Cannon's solution meant good things for everyone (and every critter) involved. Her business soon quadrupled in size.

Every good novelist and spellbinding TED speaker understands what Hall preaches. But the current buzz around storytelling in business indicates it may well be a novelty for Hall's audience of sales and marketing professionals. Hall has been blurred by marketing sage Seth Godin, whose 2018 bestseller, *This Is Marketing*, argues the only lasting way for companies to connect with clients is to establish trust by

## HUMANS ARE THE STORIES SPECIES: THEY'RE HOW WE LEARN, HOW WE EMPATHIZE, WHAT INSPIRES US TO ACT



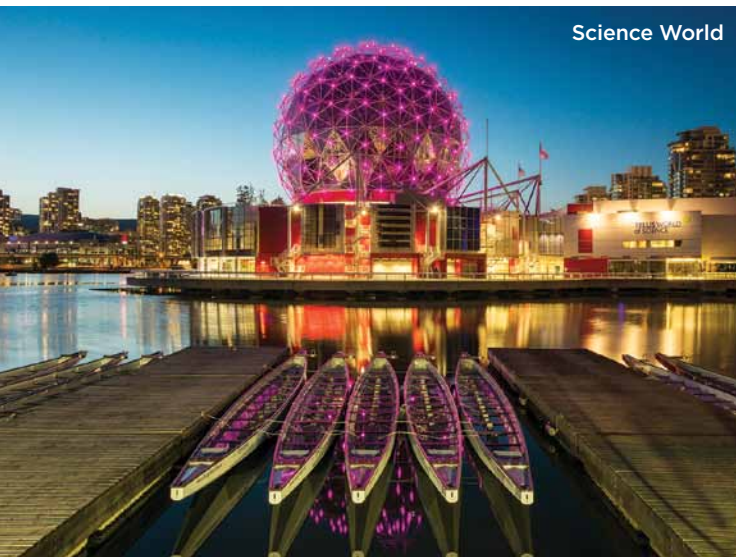
boils down to time, as in the tale of an executive whose workload was so reduced by new accounting software that he could finally train for a triathlon, a long-held dream. The founder story bolsters confidence among investors, partners and employees.

One of Hall's “meta” tales, a story about stories, nicely catches the distinction between the two most important story types, value and founder. Suzanne Cannon, stuck in a bad divorce and flat broke, almost lost her beloved dog one weekend when faced with an emergency \$4,000 veterinarian bill. That experience was the catalyst for her company, VetBilling, which helps vets provide flexible payment plans to pet owners.

demonstrating empathy. Godin allows that traditional marketing can be, in his word, “evil,” but that such marketing is also ineffective, at least in the long run. Hall goes further, insisting that any story that truly links teller and listener is by definition a force for good—although readers might find that assumption a little too blithe when she devotes nearly a thousand admiring words to the manipulative power of an Extra gum ad.

Hall is dead right, though, about the power of tales, the way they make us bond with the teller, the way they stick in our memories when fact, figures and logic have all faded away. And she tells a very good story about it all. ♦





Science World

TRAVEL

## COAST WITH THE MOST

This February, **Vancouver** plays host to the Not-for-Profit Forum 2020 (register at [cpacanada.ca](http://cpacanada.ca)), a two-day summit on policies, compliance and disruptive technology in the non-profit sector. Here's what awaits CPAs heading west. **BY CHRIS JOHNS**



L'Atelier Coworking

### WHERE TO WORK

Blurring the line between shared workspace and social club, **L'Atelier Coworking** offers all the classic accoutrements—exposed brick walls, hardwood floors, super-fast Wi-Fi—along with a variety of year-round community events, from picnics to matcha tastings. The Gastown location puts workers—a mix of entrepreneurs, architects, designers, stylists and marketing people—in close proximity to plenty of the city's best cafés, bars and restaurants. Day passes for desks start at \$35, and state-of-the-art meeting rooms include an event space with a full kitchen.

### WHERE TO CAFFEINATE

**Nemesis Coffee**, the bright, laid-back space overlooking Victory Square, is notable for its excellent pour-over and its curated selection of beans from celebrated local and international roasters. Meanwhile, **Pallet Coffee Roasters**, with six locations across the Lower Mainland, is like a beloved local band that's about to make it big. Pallet sources and roasts all of its own beans to exacting specifications. For late risers, breakfast—including an excellent avocado toast—is served all day.

### WHERE TO GET A CULTURE FIX

During the Not-for-Profit Forum, the **Vancouver Art Gallery** will host a major retrospective on acclaimed self-portraitist Cindy Sherman; the gallery is also home to the Institute of Asian Art. Originally built for the world's fair in 1986, **Science World's** geodesic dome looks as futuristic

now as it did then; in addition to housing the world's largest OMNIMAX dome screen, the centre contains permanent, immersive galleries exploring the wonders of the natural world, as well as a number of rotating exhibits.

### WHERE TO WINE AND DINE A CLIENT

Two years after its grand opening, **Coquille Fine Seafood** remains a standout in a city blessed with an abundance of great fish. Snag a clamshell-shaped booth or perch at the bar and scan the menu over a spruce-tip gimlet. The ideal lunch might start with crudo of wild Coho salmon with elderflower and lemon; dinner might include the pan-roasted ling cod with lobster fritters and finish with an old-school classic like banana cream pie. For drinks, try **Bacchus Lounge**—sipping a martini in one of its plush red-velvet booths, illuminated by the warm glow of the fire while the pianist interprets a standard, you'll feel like you're in one of the most civilized bars in the country.

### WHERE TO RELAX

"Wellness Journeys," as the signature treatments at **Shangri-La's Chi the Spa** are called, begin with tea and a footbath in the comfort of a private spa suite. Treatments employ local ingredients, including hand-harvested coastal seaweed and natural marine botanicals, and cover the gamut from Ayurvedic detoxifying rituals to hot stone massage.



Shangri-La's Chi the Spa

## Neighbourhood Guide

**Coal Harbour:** Up against the water's edge, Coal Harbour is where the city meets nature. It's a favourite spot for runners, cyclists and stroller-pushing parents. At **Cardero's**, which sits over the water in the marina, diners can enjoy a plate of albacore while watching the boats bring in the day's haul.



↑ **Gastown:** Tourists line up on the cobblestone streets at all hours to take photos in front of the famous steam clock in Vancouver's oldest 'hood, which is home to impressive cafés, restaurants and shops. Down an espresso at **Revolver** before browsing for high-fashion basics at **Roden Gray**, then pick up carefully curated homewares at **L'Atelier Home**.

**Commercial Drive:** In the bohemian heart of central Vancouver, visitors will find a mix of izakayas, tapas bars and microbreweries. Local bistro **Absinthe** offers quality French food, while **Canterbury Tales** has been a go-to for new and used books for more than 20 years.

PHOTOGRAPHS: SCIENCE WORLD BY DON ERHARDT; L'ATELIER COWORKING BY LUCY GREGORY; GASTOWN BY ISTOCK; CHI SPA COURTESY OF SHANGRI-LA

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## STRIKE A POSE

Carey Dillen is president of YYOGA, which has 12 yoga studios across Canada. The 48-year-old CPA recently completed YYOGA's teacher training program and looks forward to leading her first class. **BY ADRIENNE TANNER**

I was in a commerce program and needed to pick a major, and I was flipping through a *Fortune 500*. It had the top 100 CEOs and **most of them had a CA after their name**. I was good at math and finance and thought, okay, I'll try that.

My dad built a construction business and my mom was the bookkeeper. He went to school until Grade 8, and my mom graduated from high school. **There was no expectation for me to go to post-secondary school.**

I was a senior manager at a Big Four firm when I had the conversation about partnership. **There were no female audit partners at the time.** I saw what the partners had to do—your time is not your own. I would see the partners go on vacation and some had to fly back because of transactions. I said, I don't think I want that.

**I've been in and out of yoga for 20 years.** It gives me the ability to shut off my mind and learn a bit about myself.

In 2005, I got the knock on the door from the Olympics. **I was VP of finance for the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games.** I was part of a startup organization that went to a billion in five years, and then I got to tear the whole thing down and dissolve it.

When the Games ended, I went to all the big recruiters, but I didn't get scooped up. I was running, I was going to YYOGA and I was sitting on four boards. **I thought, something will manifest, and it did.** I went to work at YYOGA in 2013.

My partner doesn't really like activities that are indoors. **He humours me and goes once a year.**



PHOTOGRAPH BY GRADY MITCHELL



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\*Research conducted by Tailfeather Inc. in July/Aug 2019.  
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