OUTLOOK 2014

WHAT TO EXPECT IN THE YEAR AHEAD

38 BOLD PREDICTIONS

PREDICTION

1

ALIBABA BECOMES THE NEXT GLOBAL TECH POWERHOUSE

China's Alibaba already sells more stuff than Amazon and eBay combined. Watch out: in 2014, it's coming our way

By Joe Castaldo and Arshy Mann

In 1999, when Jack Ma gathered together the small cadre that would form the core of Chinese online retailer Alibaba into his small, Hangzhou apartment, no one would have mistaken him for a general. Standing a little over five feet tall and dressed in an ill-fitting blazer with a collared shirt buttoned to his Adam's apple, Ma more closely resembled an eccentric English teacher–which he was. But when he spoke, he sounded like a man sending troops off to war.

"If we are a good team and know what we want to do, one of us can defeat 10 of them," Ma blared. "Them" in this case referred to American tech firms. "We can beat government agencies and big famous companies because of our innovative spirit." It was a bold proclamation for a man armed with only $60,000 and scant Internet experience. But Crazy Jack, as he would soon be known, was right.

Fourteen years later, Alibaba Group Holding Ltd. has burst out of Ma's apartment to become the world's largest online retailer. In 2012, two of Alibaba's platforms processed more than US$160-billion worth of goods, more than Amazon and eBay combined.

Peter Parks/Getty; iStock

Around 80% of all online consumer purchases in China are made through Alibaba. Analysts can't seem to agree on a valuation for the company, except that it's a big one. Mark Mahaney, a tech analyst for RBC Capital Markets, recently pegged its worth at $150 billion. That makes it the third-most-valuable Internet company in the world, after Google and Amazon.

With an initial public offering around the corner that's likely to dwarf Facebook's piddly $104-billion initial public valuation, 2014 will be the year Alibaba begins to transform itself into a truly global company. It's rumoured to be eyeing a listing on a New York stock exchange, another step toward becoming a crucial gateway for western companies looking to reach China's massive consumer market. "Alibaba cannot be underestimated. It's enormous," says Rob Sanderson, an analyst at MKM Partners. Alibaba has the scale, expertise and financing to take on American giants outside of China, and its unique approach to online retailing gives it a head start in other developing countries.

But what exactly *is* Alibaba? "It's almost offensive how many people said, 'You guys are like the eBay of China,'" says Porter Erisman, a former Alibaba VP and the director of a documentary about the company. It's true that commentators fumble around for American analogs, and they don't stop at eBay. It's been called the Amazon of China, the Google of China and the PayPal of China.

The reality is, Alibaba is all of those companies. It started with business-to-business site Alibaba.com, an eclectic online marketplace that mainly connects small and medium-sized Chinese manufacturers to international buyers. As it grew, it became an increasingly important tool for vendors outside of China as well. "You will have people in Canada buying things from sellers in India, or someone in Kazakhstan buying from someone in Nigeria," says Erisman. Say, for instance, you operate a large clothing chain in Calgary and are looking for a new line of jeans. You'll find an endless number of suppliers on Alibaba.com. Thousands of Canadian businesses use it to find buyers for their own goods, too. Do Lobster Ltd. in Nova Scotia, for instance, advertises live lobster in bulk (only a 3%-5% mortality rate) to international buyers.

Not content with the success of Alibaba.com, Ma pushed the company into new realms. Alibaba created Taobao.com in 2003 for consumers to sell to one another, a direct threat to eBay. The auction giant charged a fee for listing, so Ma recruited vendors by offering his service for free, making money through advertising and charging sellers for better placement on its sites. By the time eBay abolished its fees in desperation, it was too late. The U.S. tech giant essentially abandoned China in 2006.

Alongside Taobao is Tmall.com, which allows established brands to sell directly to consumers. Together, the two platforms are massive. Consider that total U.S. sales on Cyber Monday in 2012 reached $1.5 billion, according to data from Bloomberg. Alibaba's sales on Singles' Day, a modern Chinese celebration held around the same time as Cyber Monday, totalled $3 billion.

The payment backbone on Alibaba is Alipay, which accounts for about half of China's online payments market. The company now issues loans to entrepreneurs and small businesses, helping to establish more vendors to sell through its sites.

The company's pending IPO means Alibaba

2

THE CHINESE 'NETFLIX' GETS ITS OWN *HOUSE OF CARDS*

Often billed as China's answer to YouTube, Youku Tudou is actually closer to Netflix; it's a streaming video site that relies on a vast library of licensed movies and television to draw in a growing audience hungry for the best western and Asian content. Like Netflix, Youku is also expanding into original programming. Right now its main product is shows produced elsewhere—including offerings like BBC's *Sherlock* and the Netflix original *Orange Is the New Black.* A 2012 merger with rival Tudou left Youku, which trades on the New York Stock Exchange, as the unquestioned Chinese leader in this space.

3

YOUR KIDS WILL DEMAND BRAZILIAN APPS

Movile, Brazil's largest app developer and a Latin American leader in mobile payments and products, is looking to go global in 2014. The company recently opened U.S. offices in Silicon Valley. This year it wants to dramatically expand its customer base outside South America, with popular apps like PlayKids—which offers streaming, mobile-optimized videos and games for children—and FreeZone, which finds and automatically connects mobile devices to open Wi-Fi networks.

4

THE DATSUN MAKES A COMEBACK—IN INDIA

Nissan is looking to make a major splash in emerging markets with its newly resurrected budget brand. The Datsun Go, the first new Datsun since the 1980s, will launch in India early this year, with a sticker price of about US$6,500. If it sells well, the company plans to roll out its new compact hatchback in Russia, Indonesia and other countries where the middle class is growing. The company's eventual goal: a Datsun for emerging markets that sells for as little as US$3,000.

will be under pressure to accelerate its growth and eventually boost its international efforts. Ma has long harboured global ambitions, and there are signs the company is acting on them. In October it led a $206-million investment round in ShopRunner, a U.S. company that competes with Amazon by partnering with retailers to offer free two-day shipping to its members, who pay a fee for the service. Alibaba hasn't said much about why it invested, but has called the U.S. market "interesting." Alibaba could be looking to offer Chinese companies a way to reach the U.S. through a more established name. "Almost everything you buy today is made in China, and Alibaba's existing businesses already support a huge array of Chinese manufacturers, wholesalers and retailers," according to Mark Natkin, founder of Marbridge Consulting in Beijing. "Now it simply needs to connect these players more directly with western retailers and consumers." ShopRunner, or future acquisitions and partnerships, could ultimately prove to be such a gateway. The investment—and the seat Alibaba snagged on ShopRunner's board—will also allow it to glean a lot more insight into the U.S. online consumer. "If you're Alibaba, you want to probe and find out more, and use it as a learning experience," says Martin Pyykkonen, a tech analyst at Wedge Partners. Alibaba could then apply these lessons to its own properties.

> BECAUSE VENDORS DON'T SELL THROUGH A MIDDLEMAN, THE GOODS ARE CHEAP. YOU CAN FIND MEN'S SUIT JACKETS FOR UNDER $15

It already has an English-language retail site called AliExpress. It's not nearly as popular as its China-centric counterparts, suffering from poor shipping and payment arrangements. Alibaba is clearly eager to expand, however, and signed an agreement with MasterCard last year to better facilitate cross-border payments. Expect Alibaba to make more such partnerships down the road. "AliExpress could be a strong competitor to eBay over time if hassles in international shipping and payments are gradually eliminated," says Julia Zhu, founder of Observer Solutions, a China market research and advisory firm. The main attraction for consumers is price. Because vendors typically sell direct and not through a middleman, the goods are cheap. You can find men's suit jackets for less than $15, for example. The products could be of dubious quality, though. Alibaba's sites have a reputation for being rife with counterfeit merchandise. (If you're in the market for cheap "Calvin Kleine" T-shirts, then AliExpress is for you.)

Alibaba's best bet for international expansion is probably not North America but everywhere else. Last year it made all of its products available in Hong Kong, Macau and Taiwan. Countries like Singapore and Malaysia, with large numbers of Chinese speakers, now look ripe for the picking. Emerging economies in Africa and Latin America are also promising, where underdeveloped financial systems could allow Alipay to become the dominant online payment system. Alibaba's experience in overcoming Chinese consumers' distrust of online commerce should also help as it expands into other emerging economies. Among its innovations have been a third-party verification process to vet sellers' claims and a chat function so buyers can talk to sellers in real time. Alipay is also an escrow service, so payment isn't released to vendors until buyers indicate they're satisfied with the quality of the goods. The company doesn't have to grow organically, either. "It is an extremely cash-rich company that could easily gain a large position in other markets through investments or acquisitions," says James Roy, an associate principal at China Market Research Group in Shanghai.

As Alibaba considers tentative steps abroad, it's also becoming a crucial link for western retailers coming to China. Because of Tmall's popularity, it's far easier and cheaper for foreign brands to buy exposure on the site rather than start from scratch. Chinese consumers don't even look for products through a search engine; they go straight to Tmall. Adidas, Pampers and Canada's own Roots now have dedicated pages on Tmall. A spokesperson for Roots declined to comment, other than to say its Tmall presence is a "preliminary test to help determine whether we decide to develop this further." Tmall alone is set to surpass Amazon in 2015 to become the world's biggest online retailer, according to Euromonitor, so any company would be foolish not to consider partnering up.

There is still plenty of room to grow at home, too. More than half of China is still not connected to the Internet. But Alibaba needs to improve its shipping processes first. Unlike Amazon, Alibaba doesn't ship products itself, instead depending on Chinese infrastructure, which is spotty at best. That means you can often expect a package to arrive in weeks, not days. To change that, the company has launched a consortium through which it promises to invest $16 billion in Chinese logistics over the next eight years, with the hope of making same-day delivery anywhere in China a reality.

Ma, the company's quirky but driven founder, will not be the one leading Alibaba's next chapter, though. He stepped down as CEO last year. (He remains as executive chairman.) The aggressive entrepreneurial spirit he instilled in the company, however, will ensure you'll be hearing a lot more about Alibaba this year—and keep its foreign rivals watching with trepidation.

5 A CANUCK TAKES OVER MICROSOFT

Canadian Stephen Elop is the front-runner to replace outgoing CEO Steve Ballmer. Elop previously served as an executive at Microsoft before leaving to head Nokia. He understands Microsoft's culture and, more important, gets mobile—the area where Microsoft needs to up its game.

6 TEENS DITCH FACEBOOK

Facebook's CFO recently let it slip that teens are using the social networking site less frequently. That trend is only going to continue this year, but it won't hurt Facebook much at first. As the company figures out how to squeeze money from Instragram, improve ad quality and better integrate mobile advertising, Facebook will keep booming financially.

7 NETFLIX GOES FEATURE LENGTH

The streaming company made a big (and mostly successful) bet on original content last year. In 2014, Netflix will do so again by producing its first feature-length movie. Netflix needs exclusive content to entice subscribers, and it will generate loads of publicity with a feature film, especially if it snares big-name stars.

Sari Gustafsson/Canadian Press; HTC; Netflix

8 YOU'LL SAY GOODBYE TO YOUR CUBICLE

All good things must come to an end. Thankfully, every once in a while, a bad thing ends too. In 2014, the office cubicle's long, painful reign will begin to fade as companies across North America adopt new free-form workspaces in a bid to cut real estate costs and adapt to the reality of an increasingly mobile workforce. Rather than offering every employee a cubicle, the new "hoteling" model offers banks of non-personalized workstations—employees check in and choose an available spot. Hoteling firms can plan for 100 square feet or less per person—much less than the 260 square feet average of 20 years ago. Watch for the trend to go big in 2014, as companies such as Manulife follow early adopters like Deloitte on to the bandwagon.

9 HARPER WILL STEP DOWN

The prime minister has emphatically denied rumours of his impending departure. What else can he say? Publicly musing about retirement would divide his party into rival leadership factions. But the next federal election is set for October 2015. With the Conservatives remaining mired in the Senate scandal and 56% of Canadians in a year-end poll saying the government is doing a poor job, they'll want a fresh face to lead them into that race. Harper needs to step aside now to allow time for a leadership contest to occur.

10 WE'LL TALK ABOUT THE WEATHER—A LOT

If you thought coping with the wild weather sweeping across Canada this winter was tough, try being a retailer. Forget the seven-day forecast: store operators need to know what the weather is going to be six months from now. The wrong bet could cost millions in unsold merchandise or missed sales. That's why companies like Canadian Tire, Winners and Starbucks rely on weather analytic firms such as Planalytics, which build statistically driven weather projections to forecast demand up to 11 months out. Here's how they see Canada in 2014 (comparisons are to 2013 sales).

FEBRUARY
The shortest month of the year certainly won't feel that way in Quebec City. Demand for ice melt is expected to surge 60% due to increased precipitation.

MARCH
After an unforgiving winter, Torontonians will welcome spring with a splash. Rainwear sales in the city will be 10% higher.

APRIL
Open-toed shoes won't be making an early appearance in Ottawa. Cooler temperatures will result in an 8% drop in spring footwear sales in the nation's capital.

MAY
Toronto lifeguards will have fewer swimmers to watch over. A cooler end to spring will keep people out of pools and result in a 6% dip in swimwear sales

JUNE
Two words, Ottawa: "heat wave." Parents eager to get their kids outdoors will drive up sales of children's shorts by 16%

JULY
Warmer temperatures in Vancouver will result in a modest 5% drop in lawn tool sales compared to 2013.

AUGUST
Come August, Montreal could be as dry as the Mojave, which will push demand for lawn-watering equipment up by 15%.

SEPTEMBER
Winter comes early to Winnipeg. As the mercury falls, sales of outerwear will rise 9%.

OCTOBER
Bundle up, Edmonton. A chilly fall will push up sweater sales by 6%.

NOVEMBER
Ottawa sees lots of sun this November, cutting demand for winter boots by 12%.

DECEMBER
Winnipeggers endured the coldest December in 50 years in 2013. They'll get a reprieve this year, leading to a modest 2% dip in demand for hot foods.

11 CABLE UNBUNDLING BEGINS

One of the long-standing annoyances of cable and satellite television—having to pay for channels you don't want in order to get the one or two you actually do watch—will start dying a slow death this year. The Canadian Radio-television Telecommunications Commission, at the request of the federal government, is investigating the impact of cable unbundling and is due to report by the end of April. Changes won't happen immediately, but savvy providers might try to get out ahead of the trend to avoid losing subscribers to services like Netflix.

12 YOUR LOCAL TIM HORTONS WILL UNIONIZE

Public-sector union leaders are already bracing for battle in 2014: the Alberta government has introduced harsh new anti-strike legislation, the federal government appears set on making organized labour its new *bête noire*, and Ontario's PC party is promising U.S.-style "right to work" legislation if elected. But all that may pale compared to the labour war brewing in the private sector. In the U.S., it has already begun, with flash strikes targeting fast-food chains and well-funded battles for a living wage in Seattle and other cities. Expect that fight to begin trickling over the border this year. In some ways, it already has. Canadian unions have begun flexing their muscles in areas previously outside their range—standing up for non-unionized temporary foreign workers at Tim Hortons in B.C. and even, through Unifor, the country's largest union, opening a form of membership to everyone from part-time workers to the unemployed. In 2014, the era of Canadian labour peace will end.

Canadian Press; iStock

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CANADIAN STOCKS OUTPERFORM

The market will rebound in 2014 and may even see double-digit growth **By Bryan Borzykowski**

Much has been said about how well global stock markets have fared over the past three years, but there's one developed country that has lagged the rest: our own. While Canada recovered nicely in the wake of the recession, the S&P/TSX composite index is down 1% since 2011. Over the same period the S&P 500 rose 43%. Even some European countries have outperformed our market. Given their home-market bias, many Canadians have likely been surprised by just how little their portfolios have moved over the past couple of years.

There's good news for these long-suffering investors. Many analysts and investment experts think 2014 will finally be Canada's time to shine. Much of what's ailed our country is now priced into stock valuations, and with the global economy finally moving in the right direction, every market, including ours, should see some sizable gains going forward.

Our struggles to date relate to the fact almost 80% of our market is concentrated in three sectors: financials, energy and materials. The last industry in particular has been badly beaten down. Materials, which accounts for 23% of the S&P/TSX composite, plummeted by 33% in 2013. Energy, which makes up 27% of our market, rose just 7% last year; over the past three, it's down nearly 5%. Other than that our market has done well. Craig Fehr, Edward Jones's Canadian investment strategist, points out that every other sector besides utilities and telecoms posted double-digit gains last year.

Expect better performance in the resource sectors in 2014, he adds. Materials have been hurt by China's slowdown—there's been less demand for commodities—but that growth pullback appears to have run its course. In fact, some economists think China's GDP growth could speed up next year. Our energy sector has been hurt partly by low natural gas prices and the discount placed on Canadian oil compared to world benchmarks, but gas and oil prices have generally been flat or on the rise.

Materials and energy should also perform better in 2014 simply because many of the stocks in these sectors are now incredibly cheap. "Canada will do better because of valuations," says Luc de la Durantaye, CIBC Asset Management's head of asset allocation. "From that perspective we don't see that drag continuing."

There are other positive signs too, says Ian Hardacre, Invesco's head of Canadian equities. People aren't as worried about a Canadian housing crash as they used to be, and the Canadian financial sector—our other big industry—continues to be a well-run oligopoly. Banks may see modest gains next year, but the insurance sector, which is a big beneficiary of rising interest rates, could see solid growth for a second year in a row, he says. Industrials, meanwhile, should continue to benefit from the U.S. rebound.

Our market should see gains of between 7% and 9%, says Fehr. Add in an average 3% dividend, plus more global growth, and it may even break double digits. "It's going to get better," he says. "There's more upside to come."

THE LOONIE FALLS FURTHER

14 Now that the global economy is recovering, our buck is less attractive to safety-seeking investors. Thomas Stolper, Goldman Sachs's chief currency strategist, expects the loonie to hit 88¢ (U.S.) in 2014. "The Canadian dollar remains overvalued," he writes, for "good fundamental reasons."

IT GETS WORSE FOR GOLD

15 The yellow metal fell 28% in 2013—its worst one-year drop in 32 years—for a number of reasons, including the threat of tapering and a growing appetite for stocks. Credit Suisse also thinks it was in a bubble, suggesting it could fall to $900 an ounce by the end of this year.

EMERGING MARKETS RE-EMERGE

16 Higher stock valuations in the developed world mean you have to take on more risk for a return. Many investors will, in emerging and especially frontier markets, where growth continues to surpass the global average by 150 basis points, according to the International Monetary Fund.

iStock

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A FOREIGN TELCO WILL FINALLY COME TO CANADA

When Verizon backed away from Canada last year, you could almost hear Industry Minister James Moore sobbing into his suit jacket. The feds failed to woo any foreign carriers, but that's no reason to admit defeat. "There is a very good chance that Verizon or another large-scale U.S. wireless carrier will come back to Canada," says one telecom analyst who spoke on the condition of anonymity. "Verizon was very interested in Canada, and the economics were compelling." Don't be surprised if another bidder emerges once complications around the upcoming spectrum auction are resolved. It would be pretty easy to snap up struggling Wind Mobile, the biggest of the upstart carriers, once it acquires the high-quality spectrum necessary to compete with established players.

18

YOU'LL PAY $6 FOR A CUP OF TEA

The folks that gave us the Frappuccino would like us to try an Earl Grey crème. In October, Starbucks unveiled its first Teavana "tea bar"—a tony new format for its sister chain with lounge seating and elaborate tea lattes—on New York's Upper East Side. With 1,000 more in the works, Starbucks hopes to exploit demand for a brew that lags coffee in sales but is more popular globally. "This is not your mother's Lipton tea, just as Starbucks wasn't Folgers," said Schultz. True. A cup of Lipton never cost $5.95.

19

SAME-DAY DELIVERY TAKES OFF

No offence to Amazon drones, but few online purchases require 30-minute delivery (with the possible exception of diapers, condoms and Immodium). The 2014 grail is same-day delivery. Last year, eBay began offering one-hour deliveries from select local retailers. Canada Post launched a Delivered Tonight service for the Christmas season that promised same-day delivery from Best Buy, Indigo and Walmart. Will it return in 2014? Canada Post won't say. But the question is, can retailers offer this kind of service and still make money? Guess we'll find out.

20

WE'LL FLY TO CALGARY ON THE CHEAP

The highly profitable duopoly of Air Canada and WestJet over long-haul air travel will be challenged in 2014 as Toronto-based Porter Airlines, Vancouver upstart Canada Jetlines and Calgary-based Enerjet introduce cheaper flights between major Canadian cities. Whether any of these entrants has more staying power than, say, a Canada 3000 or Greyhound Air remains to be seen, but in the meantime enjoy the affordable ride.

21

B.C. WILL GET ITS FIRST LNG PLANT

In February, British Columbia will unveil its tax and royalties structure for liquefied natural gas producers. Once that happens, it'll be time for proponents of the huge export terminals on the West Coast to put up or miss a finite window of opportunity. Expect Canada's first LNG plant to get the go-ahead before year end. It'll have significant consequences for the economy. "If only three of the 14 project consortia move forward," noted energy economist Peter Tertzakian, "the spending ramp-up mid-decade will be greater than that of the oilsands bonanza 10 years ago."

Brent Lewin/Bloomberg/Getty; Canadian Press; iStock

PREDICTION

22 SILICON VALLEY'S HYPE BUBBLE BURSTS

Billion-dollar startups are driving talk of another dot-com crash. But while the hype will implode in 2014, there's still real money to be made

By Richard Warnica

In June 2007 the founders of what was then known as Twttr entertained a buy-out offer from Yahoo. At the time Twitter had 250,000 active users and an impressive rate of monthly growth. But it also had no strategy for making money and no imminent plan to produce one. So the offer Yahoo tabled, and Twitter rejected, according to an account in *Hatching Twitter*, a recent book by Nick Bilton, was an understandably muted US$12 million.

Flash forward to late 2013 and Snapchat is in a similar place to where Twitter was six years ago. The company makes no money. But its app, which allows users to send pictures to one another that quickly disappear, had a strong and growing user base. And just like Twitter before it, Snapchat had web giants sniffing around, asking about a buyout.

But if the bid Twitter received was modest–some might call it low-ball–the one thrown at Snapchat was anything but. According to the *Wall Street Journal*, Facebook offered Snapchat US$3 billion for a takeover in late November. That's US$3 billion for a company that has no revenue, let alone profit. Remarkably, Snapchat turned it down.

The difference between the offer for Twitter in 2007 and the one for Snapchat in 2013 was the difference between a market still smarting from the bursting of the last tech bubble and one some worry could be inflating the next one. By late last year, people–investors, angels, venture capital firms–were all overpaying for growth in technology startups and stocks, just as they had been 14 years earlier at the height of the last bubble.

According to Janus Capital, investors are getting caught in a "hype cycle" around cloud computing and social media. And almost no company has more hype than Twitter. Valued at just US$12 million six years ago, Twitter had a market cap of over US$40 billion at one point in December. That despite never having turned a profit and earning just US$600 million in estimated revenue in 2013. But Twitter–which went public in November–isn't the only over-hyped tech stock. In November, the Nasdaq composite index broke 4,000 for the first time since the last bubble burst, inflated by stocks even some CEOs, such as Elon Musk from Tesla and Netflix's Reed Hastings, warned were overpriced.

When CEOs of successful tech companies are downplaying their stocks in public, you know the market is overheated. But that doesn't mean we're headed for another huge tech crash. For all the hype, 2014 is not 2000. Companies are not rushing to IPOs in the same numbers or at the same speed as they did in the original dot-com crash; and retail investors are less exposed than they were in 1999, when every widow and orphan was betting the farm on Netscape and Pets.com: Twitter, for instance, took advantage of new U.S. regulations to tout shares to large institutional investors first. And while Snapchat's headline-friendly $3-billion valuation seems insane, it's still a private price. In the first tech boom, the Snapchats of the world were going public at the first opportunity. Now they're staying private much longer, keeping the lion's share of the risk out of the public markets.

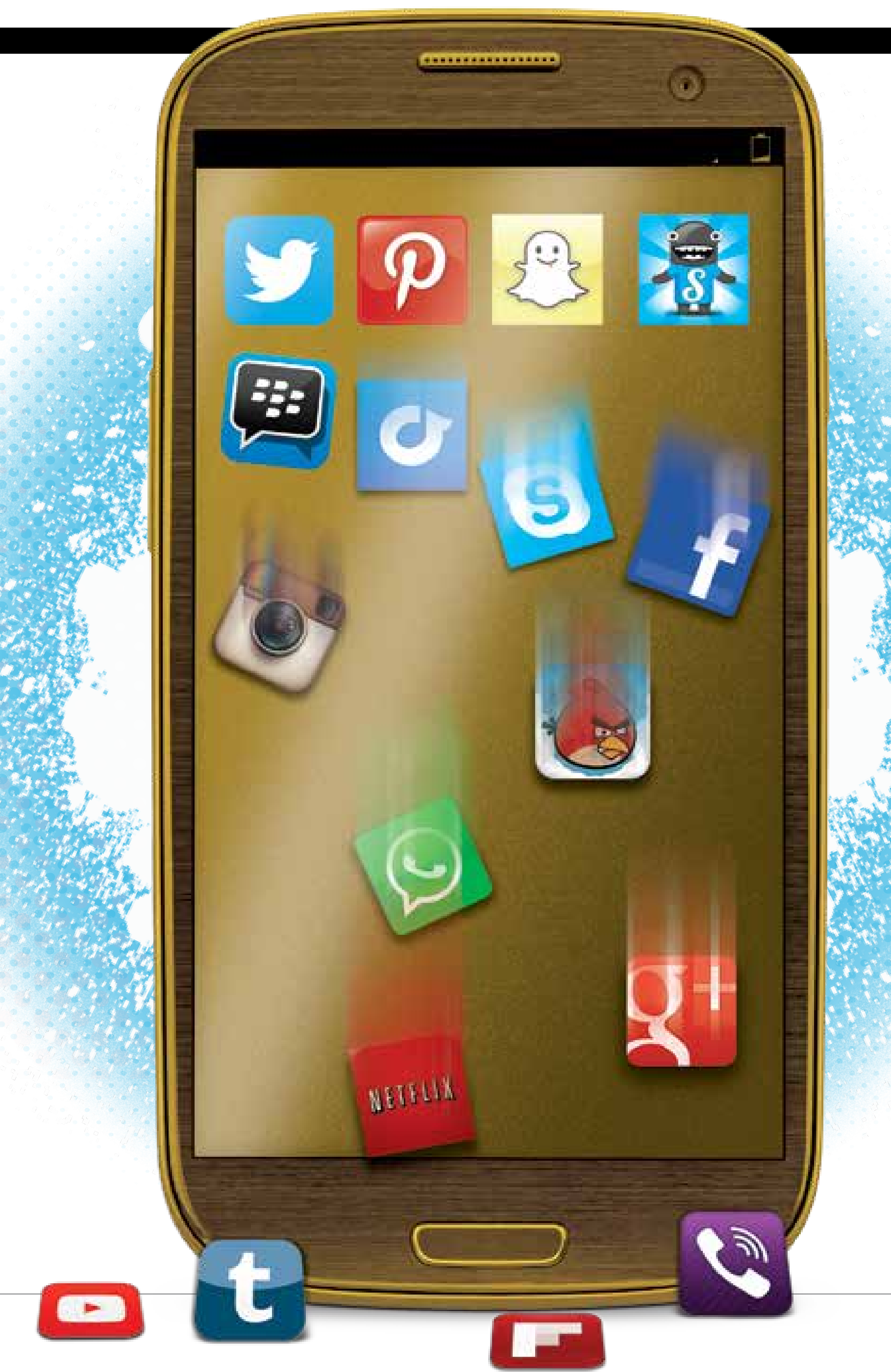
What will collapse in 2014, however, is some of the hype around Silicon Valley in general. "Tech is vulnerable," says Colin Cieszynski, a senior market analyst at CMC Markets Canada. But not to the kind of 80% plunge the industry saw in 2001. Instead, Cieszynski believes, the industry might see a much smaller correction this year, something in the 5% to 10% range. In his view, the market is in the middle of a cycle. A correction now will keep it from overinflating, preventing exactly the kind of mania that led to the dot-com explosion.

Investors have already taken the pedal off the gas when it comes to Twitter. After breaking US$74 a share in late December, the stock retreated below $65 in the new year. Analysts are still generally bullish about the company's long-term future, however. Its core business–social and mobile advertising–remains impressive and growing. (According to a report by eMarketer released in December, U.S. advertisers spent about US$9.3 billion on mobile ads in 2013, up more than 120% from the year before.)

That's the same reason the Snapchat scenario–wild as it might seem–isn't necessarily crazy when you break it down. "Turning down $3 billion sounds insane," says Neil Bearse, the associate director of marketing at the Queen's School of Business, but not if you have the next hot thing. Snapchat has a proven record of attracting young, loyal mobile users; Facebook has struggled on mobile. So it makes sense for the latter to go after the former, even if the price might seem a tad too high.

Hype-laden social media startups are far from the only thing the tech sector has to offer. Less glamorous but more reliable businesses abound. Tony Olvet, the group vice-president for research at IDC Canada, says 2014 will be a big year for cloud computing as more and more enterprise customers get over their security fears. "What we're seeing is the value and economics of cloud for most organizations outweigh the potential risks," he says. That should open up new, valuable territory for app developers and others active in the cloud space. That's not to say there aren't business charlatans out there. Not every tech startup is destined for a profitable future. At the angel investor level especially, Bearse believes, "it seems like a lot of companies are getting funded, and it may not be sustainable."

So while Silicon Valley's hype bubble is overdue for a good poking, a few flameouts won't spoil the whole party. Instead, we're due for a gradual deflation of expectations–with a few spectacular blow-ups. In 2014, cooler heads will still find real growth. They'll just have to look beyond the anointed social media darlings to get it.



23 3-D PRINTERS WILL HAVE A MAC MOMENT

The MakerBot Replicator Mini, unveiled at January's Consumer Electronics Show in Las Vegas, could do for 3-D printing what the original Apple Macintosh did for home computing in 1984. It could, in other words, take a product used up until now mostly by serious professionals or committed hobbyists and make it mainstream.

The Mini, slightly larger than a countertop bread maker, will be available to consumers this spring for a still pricy but no longer prohibitive US$1,375. More important, it will come with most of the same internal technology as the latest full-sized Replicators, which means the first true wave of casual 3-D printing fans won't be stuck with inferior gear.

MakerBot

24 3-D PRINTERS WILL GET THEIR FIRST TRUE APP STORE

Owning a 3-D printer isn't much fun if you don't have anything to make with it. That's why MakerBot is opening a digital store with low-cost, professionally designed 3-D schematics for, at the moment, mostly toys, including rocket ships, dragons and trucks. That means the family that buys a Replicator Mini this spring could be printing its Christmas presents by next winter.

25 YOU'LL EAT A 3-D PRINTED WEDDING CAKE

3D Systems unveiled its new ChefJet series, also at CES, in January. The larger model, the ChefJet Pro 3D, will allow professional chefs—at nearly US$10,000, this isn't a machine for the home kitchen—to print elaborate, edible sugar creations in full colour. For now, that probably means cooler, more durable and intricate wedding cakes—for those with a lot of money to burn.

PREDICTION

26 THE BAY LOSES THE RETAIL WAR

As new players target high-end shoppers, an old one will struggle **By Darah Hansen**

For shoppers who can't resist Prada shoes, Luis Vuitton bags and delicate gloves lined with Burberry's unmistakable tartan, 2014 is shaping up to be a great year. But for the country's oldest retail brand, the months ahead look dire.

The iconic Hudson's Bay Co. is gearing up for the fight of its life as Nordstrom, the upscale Seattle-based department store chain with a reputation for impeccable customer service, prepares to enter the Canadian market this fall, while high-end Holt Renfrew launches its own aggressive expansion. For the chain formerly known as the Bay (it was renamed Hudson's Bay last year), the timing couldn't be worse: company executives have aimed to move the brand upmarket over the past several years in a bid to capture a chunk of the Canadian luxury market, long considered under-served by retail industry analysts. Nordstrom's entry alone should be enough to have Liz Rodbell, the new Hudson's Bay president, concerned, but she's also facing a new challenge: how to reposition the chain now that Hudson's Bay Co. CEO Richard Baker has acquired another tony property–Saks Fifth Avenue–which he also plans to introduce to the Canadian market. Luxury sales represent the new holy grail for retailers, so the Saks purchase makes sense. But it seems unlikely that HBC can field two strong properties that target upper-end sales. And given that Baker has stated he hopes to eventually launch a global expansion of Saks, the Hudson's Bay brand will likely take the back seat (seven key Bay stores, including its prominent Yonge and Bloor location in Toronto are slated to become Saks stores within the next two years, and some analysts have predicted more Hudson's Bay store closures). Moving the brand down market again isn't an option: sales at mid-range department stores have been dropping dramatically (witness the demise of Eaton's, Sears's recent retrenchment and J. C. Penney's ongoing struggles south of the border–and the rise of low-end chains like Winners and Target). Sales at Hudson's Bay stores have been reviving, but slowly–the chain rang in $2.3 billion in retail sales in 2012 and has seen a modest increase in overall productivity across its 90 stores from sales of $122 per square foot in 2009 to $133 in 2012. With tough new competition targeting the same shoppers who have helped shore up Bay sales, it's hard to see a bright future for the chain."There are not enough high-end consumers (in Canada)," says Hermann Kircher, president of Kircher Research Associate in Toronto. In 2014, it looks like HBC will paint its flagship brand into a corner.

27 SEARS LEAVES CANADA

Retailers should make money by selling goods, not stores, but in 2013 Sears Canada made a fortune doing just that, giving up some of its most prominent locations in the process. As far as some analysts are concerned, selling leases has become Sears's business model in Canada. In fact, when CIBC's Parry Caicco initiated coverage of the floundering retailer in November, he ascribed no value to its operating business. Independent retail analyst Jan Kniffen says the five store closures announced in 2013 are just the tip of the iceberg. "The leases are the most valuable part of the business, so once you go down that rabbit hole it gets dark pretty fast," he says. Don't be surprised if Sears abandons Canada completely when it runs out of locations to sell off.

28 TARGET REBOUNDS

A year ago Canadians were giddy about Target's expansion into Canada. Now many dismiss it the way they dismissed the Zellers stores the U.S. chain replaced—instead of the cheap chic they were expecting, they got higher prices and bare shelves. But analysts expect the chain will work hard to win back Canadian consumers' affections this year, pointing out that hiccups should be expected in a rollout this extensive (more than 100 stores opened in 2013). "They are definitely going to have to…do some marketing that shows their pricing is competitive with other retailers in Canada," says Joseph Feldman, a retail analyst with the Telsey Advisory Group. Feldman thinks the company will turn things around, but it won't have the impact on earnings that Target's executives claim. Still, Target will start to right the ship by the fourth quarter before it hits its stride in 2015.

Canadian Press; Getty; iStock

Planet Labs

PREDICTION

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THERE WILL BE MORE EYES IN THE SKY

In 2014 "agile aerospace" will allow you to buy your very own satellite

Meet the Dove, a "nanosatellite" developed by San Francisco–based Planet Labs. Just a foot long, this tiny satellite is one of 28 the company will launch in 2014. That "flock" of Doves encircling the earth will beam back high-resolution images of the planet's surface, suitable for analyzing everything from soil conditions to the number of cars in mall parking lots. Launching a fleet of small, cheap satellites allows Planet Labs to provide such data faster and cheaper than existing satellite imaging companies, and they're not alone. Such "agile aerospace" companies are proliferating as satellite technologies become standardized and miniaturized, and 2014 looks to be the year they truly, well, take off.

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BRAZIL'S WORLD CUP IS A FISCAL FIASCO

Brazil has enjoyed a certain swagger over the past decade, as rising incomes and low unemployment fuelled a sustained burst of growth. But now, as it scrambles to host the world's two largest sporting events, there's a creeping sense that the country may have bitten off more than it can chew.

The FIFA World Cup kicks off in São Paulo on June 12; the Olympics will open in Rio de Janeiro on Aug. 5, 2016. Both are running behind schedule and over budget, and Brazilians appear increasingly angry that their government is lavishing billions on a dozen stadiums while basic infrastructure like roads and public transit suffers. A 50 centavo increase in São Paulo bus fares helped spark huge street protests last summer that disrupted the FIFA Confederations Cup, and similar protests look likely during June's festivities.

Splashy global sporting events seemed like a chance to show off Brazil's go-go economy when they were granted years ago. But as growth sputters, they risk becoming a fiasco with a fiscal hangover for decades to come. In November, a crane rushing to finish the stadium that will host the World Cup opening match collapsed, killing two construction workers; in December another World Cup stadium sprang a roof leak less than a year after completing a $500-million renovation. As both high-stakes events draw near, the cracks are showing—in every sense of the word.

31

EUROPE'S BANKS HAVE A VERY MESSY YEAR

The EU is scrambling to set up a new central watchdog that will police Europe's banks, and a short runway promises a bumpy takeoff. Danièle Nouy, the French chair of what will be called the Single Supervisory Mechanism, has until only Nov. 4, 2014, to set up a new regulator to co-ordinate one set of rules for up to 6,000 banks across at least 18 countries. In the long term, a single regulator makes sense for Europe; but this year's transition is likely to be a messy affair.

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SCOTLAND VOTES 'NO' ON INDEPENDENCE

On Sept. 18, 2014, Scottish voters will answer a referendum question more than 300 years in the making: "Should Scotland become an independent country?" Hanging on the answer are several billion-dollar economic questions, the biggest of which is ownership of the North Sea oilfields and their associated $19 billion in annual tax revenue. (Geographically, nearly 90% of reserves reside in what would become Scottish territory.)

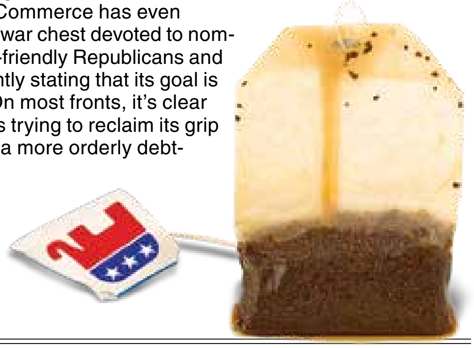
Nine months out, polls are wildly variable, but most put the No campaign in the lead. As always in Britain, you can count on the bookies for the last word: both Ladbrokes and William Hill bookmakers now offer 5-to-1 odds on a Yes vote—the longest since betting began.

33

THE TEA PARTY GETS PUT ON ICE

The Republicans have just had a humiliating year, full of self-inflicted wounds and infighting over the government shutdown and debt ceiling impasse. Now the GOP leadership is reasserting control: the party has changed its nomination rules to discourage rebellious Tea Party candidates and warned mutinous congressmen to behave, or lose their committee seats.

The U.S. Chamber of Commerce has even announced a $50-million war chest devoted to nominating centrist, business-friendly Republicans and fighting Tea Partiers, bluntly stating that its goal is "no fools on our ticket." On most fronts, it's clear the party establishment is trying to reclaim its grip on the wheel, so look for a more orderly debt-ceiling negotiation this spring, and a slightly less colourful field of Republican presidential candidates as the 2016 race heats up.

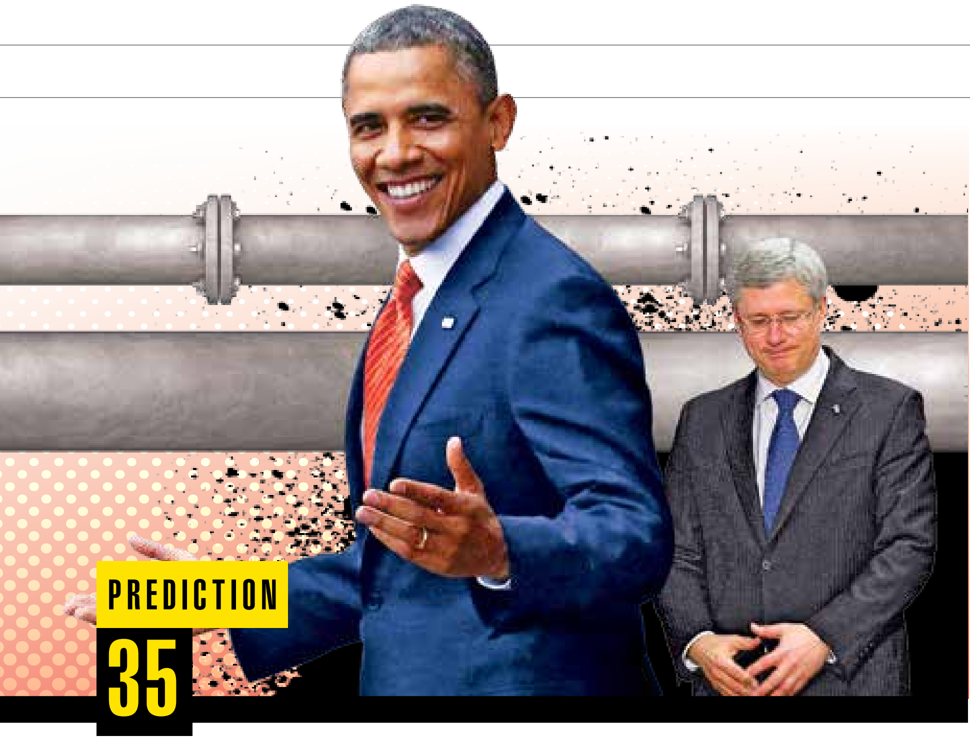


34

CHINA'S IPO DAM BURSTS

China's government imposed an IPO freeze on the country's stock markets in October 2012 as part of a crackdown on fraud, leaving hundreds of companies unable to raise equity. That ban ended on Dec. 30 when five companies received permission to go public, with 50 more reportedly coming in January. But hundreds more are waiting in line for approval, and investors worry that the flood of new listings will harm valuations across the board as traders draw down their existing holdings to chase newcomers.

Reuters; Getty; iStock; Shutterstock



PREDICTION
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OBAMA SAYS NO TO KEYSTONE XL

Concerned about his legacy, the president will prove that he really does care about the environment **By Joe Castaldo**

At a meeting of the Canadian American Business Council in New York a few months ago, Prime Minister Stephen Harper vowed to keep campaigning for the Keystone XL oil pipeline even if the U.S. rejected it. "My view is that you don't take no for an answer," he insisted.

This year, he will have to. U.S. President Barack Obama will render a decision on the cross-border stretch of the pipeline, which will funnel crude from Alberta to Nebraska. The odds of approval are not looking good. "It is less than 50-50 that President Obama approves it," says Daniel Weiss, the director of climate strategy at the Center for American Progress, a think-tank in Washington, D.C. There are early signs Obama is leaning toward nixing the pipeline, including his assertion in a July interview with the *New York Times* that the pipeline would only create between 50 and 100 permanent jobs.

The president made it clear his decision ultimately comes down to the pipeline's effect on carbon emissions. That would seem to be a boon for Keystone, since a preliminary assessment by the U.S. State Department concluded its effect on carbon emissions would be negligible. Canada's oil will be extracted and marketed regardless of Keystone, the report contended, and could be shipped to the U.S. by rail, which has higher emissions.

But there is no guarantee the State Department will reach the same conclusion in its final analysis, due in the coming months. The Environmental Protection Agency, for its part, questioned whether rail is economical enough to meet production estimates. If rail can't replace Keystone, then Canadian oil won't necessarily reach the U.S. in the same quantities. Emissions could theoretically be lower if the pipeline is never built. "Because of this, it wouldn't meet the president's own criteria," Weiss says.

Despite Obama's clear signal that the pipeline's fate rests on carbon emissions, the Canadian government still hasn't implemented regulations on the oil and gas sector. The Conservatives promised way back in 2006 that every industry would be subject to mandatory emissions requirements, but nearly eight years later, little progress has been made.

In this context, rejecting the project would be better for Obama politically. "What people in Canada don't seem to fully understand is the amount of private money being put into influencing Obama to not approve it," says Lionel Conacher, a Canadian who now works at Roth Capital Partners, an investment bank in California. Billionaire Tom Steyer's aggressive anti-Keystone advertising campaign has kept the issue in the public eye. It also reminds Obama's environmental supporters that he spent his first-term focused on health care instead of global warming. This public shaming is problematic for a final-term president interested in building his legacy. During the 2008 election, Obama promised his presidency "will mark a new chapter in America's leadership on climate change." Denying Keystone gives him a chance to fulfil that promise. He'll take it. ◗

36 NORTHERN GATEWAY WON'T BREAK GROUND

The federal cabinet will likely give its blessing to Northern Gateway in a few months, but many First Nations groups are opposed to the pipeline. It's almost guaranteed some groups will challenge Northern Gateway at the Supreme Court.

37 TRANS MOUNTAIN WILL SPARK CONTROVERSY

Kinder Morgan Canada is seeking to triple the capacity of its pipeline from Edmonton to the coast of B.C., and the National Energy Board is conducting a 15-month review carrying into next year. The project hasn't generated nearly as much controversy as Northern Gateway, but environmental and native groups are beginning to voice opposition. Expect the pushback to intensify this year.

38 THE EAST WILL DEMAND A PIECE OF THE PIPELINE PIE

TransCanada and Enbridge are seeking ways to move oil from Alberta to refineries and export terminals in the east. Ontario ordered public hearings into TransCanada's Energy East, and Quebec did the same for Enbridge's Line 9. Both provinces will likely flex their muscles by submitting a list of conditions the pipelines have to meet in order to win approval.

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