

Canadian manufacturers on the world stage.

Addressing economic and business challenges



Canadian manufacturers have to be at the top of their game in order to respond to and prosper in a North American marketplace where the Canadian dollar is trading at or above par with the US greenback.

Over half of Canada's manufactured output is sold into or through the United States. Much of it is traded between business units of the same company or within highly integrated supply chains extending across North America and now encompassing customers and suppliers around the world. Canadian manufacturers depend on their North American suppliers. At the same time, Canadian operations are competing for investments and product mandates not only within North America but on a world wide scale.

Canadian manufacturers are in the midst of a perfect storm. Under conditions of rapid currency appreciation, escalating business costs and weakening market demand in the United States, business as usual is simply not an option for any Canadian company dependent on the North American market. Canadian manufacturers have to adopt new hedging, pricing and contracting practices. They are all under the gun to reduce costs, improve process and supply chain efficiencies, develop new and improved products and services, diversify both their markets and their suppliers, and rethink their investment, procurement, marketing and customer service strategies. For many, it is a question of survival. For most, it means major investments, unprecedented leadership challenges, and the need to mobilize employees to achieve new business goals and bottom-line results.

Today, the focus needs to be squarely on the bottom line – on cost reduction, productivity improvement, supply chain efficiencies, logistics management, and higher value products and services. New economic risks require new business strategies and successful change management in order to compete and grow within North America.

Yet, the appreciation of the Canadian dollar has only amplified the longer-term competitive challenges facing Canada's manufacturing and exporting sectors. Exchange rate pressures and a slowing American economy have only made it more urgent for them to respond. There are even more fundamental forces reshaping the business of manufacturing around the world.

Today's global markets have brought with them new competitive challenges from emerging industrial economies like China, Russia, India, Brazil, eastern Europe and Latin America. They also offer new business opportunities for companies in new rapidly growing markets.

Globalization has intensified competition for investment, product mandates and market share. In a world of competing supply chains, logistics have become a competitive advantage just as global sourcing and new centres of low-cost manufacturing are reshaping the structure of supply chains themselves. Meanwhile, the convergence of information and communications technologies, biotechnologies, nanotechnologies, new materials and molecular engineering has accelerated the pace of technological change, revolutionizing products as well as processes in many industry sectors.

The business environment is also rapidly changing. Manufacturers must respond to more and more stringent demands on the part of customers, shareholders, governments and stakeholders alike. Demographics are changing both the nature of market demand and workforce capabilities. Businesses and governments are now competing for talent, knowledge and technology on a global basis. Environmental concerns, and energy and resource management, have become priority issues for citizens around the world.

What Canadian manufacturers have to do in order to respond to a high dollar is exactly what all North American manufacturers must do in order to compete in today's global market place. They have to rethink their businesses. Manufacturing is no longer the business of getting product out the door; it is the business of providing solutions to customers in which products, services, knowledge, design, engineering, and logistics all play a critical role in providing customer value.

Manufacturers across North America have to specialize their products and services. They have to customize what they do. They must be innovative in all aspects of their business, from product development, process improvement, and the use of new technologies, through to the adoption of innovative business practices and the development of new partnerships and new market opportunities. Manufacturers have to be LEAN – continuously focusing on what customers value and eliminating wasteful non-value-adding activities in every aspect of their business and supply chain relationships. They have to be agile, responding rapidly to customer expectations. And, they have to be fast, because time is the currency of the 21st century.

These are common priorities for manufacturers across North America. But, manufacturers also depend on a competitive business environment – tax systems that encourage investment in innovation, talent, and productive technologies; regulatory systems that are consistent, effective, and enable low-cost compliance; secure and trade efficient borders; and logistics and energy networks interlinked across the continent that can guarantee manufacturers the reliable and cost-competitive infrastructure they need to meet future demand.

Manufacturing is the most highly integrated sector of the North American economy. Clearly there's a great deal of competition in the richest market in the world. But, what is most striking is how common the competitive requirements of North American industry are across the continent.

The real challenge today is: How do manufacturers in North America – and how do North American economies themselves – compete in global markets? Canadian manufacturers must respond to the immediate economic pressures affecting their sales and profit margins. But, at the same time, they cannot afford to take their eye off the longer-term challenges that are affecting their industry across North America and right around the world.

For that reason, CME is very pleased to partner with Deloitte and the National Association of Manufacturers, our counterpart organization in the United States, in our survey on industrial competitiveness in North America. Our study will assess the competitive advantages of operations in Canada, the United States, and Mexico. And, it will evaluate the competitive performance of North American industry with respect to manufacturing around the world. This is the type of strategic analysis that manufacturers and policy makers need, not only to respond to the economic challenges currently battering Canadian industry, but to make those decisions that are vital to sustain competitiveness, grow businesses, and ensure the future of the North American economy as a whole.

Surveying the competitiveness of Canada's manufacturers

With 80 percent of Canada's exports destined for the United States, domestic manufacturers have been hard hit by the rise of the Canadian dollar. This latest threat to profitability and growth is just one more hurdle in a litany of challenges that have buffeted the manufacturing industry in recent years.

By Luc Martin, Deloitte's Manufacturing Industry Leader of Canada and Peter Koudal, Deloitte's Global Manufacturing Research Director

Over the past few decades, manufacturers across North America have experienced cost increases so steep they often cannot be defrayed by raising prices. They have been challenged by shifting customer demands to introduce new products at a faster rate than at any time in the past. They have faced difficulty sourcing and retaining skilled labour to help them navigate today's complex market environment. Through it all, they have also seen their margins eroded by foreign competitors with substantially lower cost structures.

Given these challenges, one might imagine that manufacturers stand on the brink of severe crisis. Yet, while some manufacturers are fighting for survival, many others are doing well. Given that most manufacturers have access to equivalent education and social systems, a common transportation infrastructure, similar communications technology, and comparable legal, investment and trade regimes, this raises a key question: Why do some companies succeed where others fail?

The answer seems to be that the factors for success extend far beyond the impact of government support. In fact, it would appear that successful companies have developed unique skills and capabilities that allow them to differentiate from their competitors. The upshot? To fully evaluate the competitiveness of manufacturing industries in North America, you need to focus on both general marketplace factors and on company-specific factors.

Adopting a North American and global focus

To understand the hallmarks of successful manufacturing companies, and the government policies and location-specific factors that support them, Deloitte Touche Tohmatsu member firms in Canada, Mexico and the United States conducted a survey in partnership with Canadian Manufacturers & Exporters (CME), the US National Association of Manufacturers (NAM) and the US Manufacturing Institute.

While this survey, called "Made in North America", is not yet complete, preliminary results indicate that success is in part due to a manufacturer's ability to enhance its competitiveness both across North America and around the world.

Although the media give a lot of attention to the need for North American manufacturers to adopt a more global operational approach, they tend not to discuss the equivalent importance of leveraging the diverse opportunities across North America – from both a resource and marketplace perspective. However, in light of the North American Free Trade Agreement's (NAFTA) ongoing mandate to enhance regional trade, it is incumbent upon manufacturers to identify all available opportunities for growth.

Achieving a competitive advantage

While there are no cookie cutter solutions to achieving enhanced competitiveness, manufacturers can begin to effect long-term change by focusing on five key areas:

- **Driving revenue growth**

To generate increased revenue over time, manufacturers must invest in innovation by creating differentiated products. They can also achieve growth by taking steps to strengthen their marketing and brand management, pricing strategies, sales and business development and customer relationship management. Other key growth factors include exploiting service and parts management as a top-line business strategy and undertaking mergers and acquisitions to improve efficiency and more easily enter new markets.

- **Reducing costs**

To reduce costs Canadian manufacturers cannot continue to solely source their inputs and talent within Canada. Instead, they must adopt a combined North American and global approach focused on reducing costs related to supply chain management, compensation, energy and utility usage, compliance, tax and channel complexity.

- **Globalizing**

To remain competitive over time, manufacturers must explore international business opportunities. However, before they can globalize effectively, they must put their local operations in order. As organizations grow, operations become increasingly complex. In addition to adding cost issues, companies must also negotiate new sourcing arrangements, manage longer supply chains, handle more diverse product and service offerings and hire and retain global talent. This requires the adoption of more integrated operating models that stress global efficiency, performance improvement and risk management.

- **Managing talent**

As people currently in the workforce grow older and retire, and new workers become more difficult to hire, manufacturers across North America must attract and retain skilled talent. What they may not realize is that they can enhance their talent pool by taking better advantage of opportunities across North America. In many ways, North America offers exceptional variety in terms of diversity of wage rates, low and high cost locations, educational levels and even government policies. Combining these factors in new ways could help manufacturers create a more flexible talent pool better able to withstand both regional and global competitive pressures.

- **Transforming the finance function**

Rather than relying on the finance function as a resource for regulatory reporting and compliance, truly innovative manufacturers are beginning to leverage finance as a tool for driving business performance. The finance function, led by the CFO, needs to be at the heart of change that could see manufacturers drive tangible results in strategy and execution across the enterprise, including initiatives for top-line growth, cost reduction, globalization and talent management.

Manufacturers seeking to attain competitive advantage by exploring these areas for improvement, however, must understand that the days of making incremental changes are over.

As manufacturers deal with the cumulative effects of globalization, low-cost foreign competition and the rising Canadian dollar, they must come to recognize that they can no longer work around the margins. To enhance both North American and global competitiveness, companies must re-examine their fundamental business models. This means going beyond reacting to the current environment by making competitive differentiation part of their corporate strategy on a long-term basis.

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Contact us

We can help you through the manufacturing challenges.

For more information on how manufacturers can succeed,
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