



Surviving, Competing & Prospering in the new age of the high Canadian Dollar

Manufacturing in Canada when CAD=USD

Report on the Roundtable Held at *The Richard Ivey School of Business*

October 10, 2007

Written by Robert Angel



Surviving, Competing & Prospering in the new age of the High Canadian Dollar

The Access Group brought together a group of experts on Canadian manufacturing in London, Ontario on October 10, 2007 for a Leadership CEO Roundtable on “Surviving, Competing & Prospering In the New Age of the High Canadian Dollar”. The Roundtable panel, listed at the end of this Report, consisted of industry leaders representing a range of specializations. The Roundtable was held in conjunction with IBM, Allstream, Cisco Systems, and other sponsors also listed at the end of this Report.

Andrew Wright, Ivey’s Director of Executive Development Programs, introduced the Roundtable objective – to help align goals and add value to the supply chain. Tom Vassos, IBM’s Canadian CIO Innovation Executive, added that the theme for the Roundtable was selected a few months to get the group to think about the implications of a Canadian dollar at par with the U.S. However, he suggested that “a better strategy would now be to consider a Canadian dollar at \$1.25, since that would require us each to consider the implications of much more dramatic strategic changes that would be needed for us to compete successfully”.

Taimour Zaman said that Access Group research suggested successful exporters will concentrate on selling premium products, focusing on their brands rather than competing directly on cost with other

low cost producers. This means targeting enterprise organizations, emphasizing competitive benefits to justify a premium product/service.

In a lively morning of discussion, the conversation concentrated on four main topics:

1. Capitalizing on being adaptable
2. Getting help from Partners to strengthen the Value Chain
3. Enlisting the shop floor in innovation
4. Taking advantage of government assistance

Many Roundtable participants provided comments as noted in the accompanying document. The views expressed in this white paper are those of the participants generally and may not necessarily reflect those of The Access Group or the sponsors.

Cdn \$ increase in 12 months to Sept 2007

USD	14.6%
JPY	11.5%
GBP	11.0%
SWF	10.7%
EUR	7.9%

Capitalizing on Being Adaptable

Experiment with value-added products or services that make your customers more competitive, so you don't need to compete just on cost.

Case study 1

leverage existing competencies into new directions

An office furniture manufacturer looked at its metal working skills and realized it could make quality metal boxes with shelves, so it is exploring making tool cabinets. It launched a skunk works project to make two units as an experiment, and now is entering a market never previously talked to or even thought about. It is taking its process capability to a whole new market – with the bonus that a lot of the customers are actually in Canada.

Kent Smallwood, Inscap

What did the panel say about this?

- We won't survive unless in low labour content products that are technology based and complex – no matter how optimized our plants are
- You have to keep growing – you can't shrink to greatness
- There are still opportunities close to home as well as overseas – the world sees the Great Lakes area as an attractive \$1.3 trillion market

How does the panel think this is important?

- Capitalize on the competitive advantage of great communication and creative freedom, and be more flexible-reactive-adaptable than global competitors

Case study 2

use cost pressures as a compelling event

A steel-wheels manufacturer had an old Canadian manufacturing facility that was slated for closure, and two large sister plants in Tennessee and Oklahoma. The Canadian plant had lean tools but an old building, and they admitted to having made every mistake in the book. The business had been strong historically with lots of overtime but the mature work force had become complacent and lost the ability to see its main competitor clearly, e.g. their automotive shock absorber had not changed price in three decades. This created a perfect storm, especially with an emissions change requiring new engines that moved them from 50,000 trucks last year to only 200 this year. Instead of saying 'no hope' and selling the plant, the company backed into a strategy of small runs of specialized products in a commodity environment. It restructured down to 250 people and experimented in supplying productivity tools to the whole work force.

Leigh Wright, Accuride

Capitalizing on Being Adaptable (..continued)

What did the panel say about this?

- In 'Lean', Operations tends to see their main goal is reducing costs, but we should be selling our colleagues on niche products too small to be of interest to other vendors and offering our employees and managers opportunities for growth
- GM labelled Canada as a low cost country three years ago creating a lot of supplier jobs in Canada as a direct result of that view, but now Canada is not low cost any more and that supplier business is moving elsewhere
- Our firm has recognized that poor quality is a hidden cost – so we look strenuously for process quality gaps and make sure we really know our costs
- Many Canadian companies are just hunkering down – falling behind because they have not invested in new technology so their productivity gap has continued to grow
- Flexible tools, techniques, training, and methodologies applied intelligently have worked for many exporters – even in the most competitive sectors
- Toyota no longer has lift trucks, it has robots – but don't layer on automation without the right tools – the Toyota Production System is now mature but the roadmap is still clear about eliminating waste – otherwise automation, inventory reductions, and innovation will be sub optimal

How does the panel think this is important?

- Now is actually a good time to invest – considering most technology is bought in US dollars and is now 40% cheaper (than six years ago)

Exporters reluctant to buy new equipment

Canadian exporters should be using their strong dollars to buy shiny new equipment at bargain prices abroad, in theory boosting the nation's sluggish productivity, politicians argue. That's not happening.

Many smaller exporters say their priority now is containing costs - and that means they're focusing on shifting jobs out of Canada, not bringing fancy new machines here. That may explain why machinery and equipment imports over the past five years have risen just 8 per cent, as Statistics Canada calculates, even though the dollar has soared 60 per cent over the same period. Between July of this year and July of last, those imports actually fell 1.6 per cent.

Overall growth in machinery and equipment capital stock has withered to just 0.3 per cent since 2002, from 4.6 per cent a year in the 1992 to 2001 period, according to a report last month by Toronto-Dominion Bank chief economist Don Drummond.

Globe & Mail Report on Business, September 24, 2007

Case study 3

differentiate value-added operations from commodity ones

An auto parts and medium steel components company until recently had 5 plants all in Toronto but now has one facility in Mexico and two in the US. Their competitive advantage is in assembly with rolling technology. Although their quoting systems were weak against US competitors, they recognized that they couldn't rely on the currency for competitive advantage because "it will catch up with you". They focused on eliminating low cost labour products that they did not have an advantage in, self-hedging by moving other commodity products that still fit their strategy to a facility in Ohio. The company is now on track. – Al Power, Van Rob Inc.

What did the panel say about this?

- We cannot be just in Canada but must start to think globally – many Canadian companies have not had to until now because they could hide behind a strong dollar and the advantage of being next to the largest market in the world
- Many Canadian plants have an advantage over many US plants, having adapted to being always about to be shut-down and learned competitive survival skills
- Global competition is no longer down the street, nor even just in North America –

Canadian companies have to go worldwide with business strategies to survive

- Look at consolidating shipping costs to Asia, e.g. to fill a container, convince auto companies to ship 6 different types of tires
- My company sells custom-built products to a Chinese customer buying in France, providing a second source and solving process issues with unique solutions

How does the panel think this is important?

- Canadian ingenuity in addressing rapidly changing market demands will be in greater demand, especially as the talent crunch spreads worldwide

The Asian era is coming! (And Canadian businesses don't care)

Canada's share of the overall Asian market is less than 1 per cent, down from 1.72 per cent in 1995 and 2.51 per cent in 1984.

"Asia is the fastest-growing region of the world, producing one-quarter of global exports, and accounting for over 35 per cent of the world's GDP. This is projected to rise to a 43 per cent share by 2020."

Yet only 17 per cent of Canadian companies have a formal China strategy.

Globe & Mail Report on Business, October 17, 2007

Working with Partners to Strengthen the Value Chain

While costs higher than competitors are clearly a recipe for non-competitiveness, it is value not cost that drives sustained business success.

Case study 4

unlock supply chain efficiencies

A water heater manufacturer, in business since 1847, is one of Canada's oldest manufacturers of residential and commercial products. Over the past 18 months, the organization has transitioned from a major operating unit to a member of a large multinational organization. The company remains the largest employer in its county, and consists of a mature and skilled workforce. The organization faced many challenges including in customer supply chains as well as internally. Management went back to the work force to explain the situation and use the work force's experience and expertise to solve such problems. Working collaboratively and cross-departmentally, supply chain and other processes were improved and customer relationships were strengthened so that both customer and vendor could benefit. Over four years, the share price which had been flat for some time previously, rose ten-fold.

Zamal Ruffudeen, GSW

What did the panel say about this?

- Continuous supply chain improvement is a

competitive necessity; it is no longer a competitive advantage

- Thoughtful planning year after year is the key; it is not just something that happened recently, it is not spur of the moment innovation that just happens once
- We look at our value in our own terms not just the customer's, including looking at other industries to see more clearly what is happening in our own industry
- Involve suppliers in your price reductions by working with them in facilitating a reduction in the cost of doing business with us
- Toyota has shown that rationalizing suppliers enables better collaboration with remaining suppliers

How does the panel think this is important?

- The supply chain cost/value relationship can differentiate your products – few companies compete successfully with commoditized products strategies

“A challenge facing industrial organizations is the ability to see their entire supply chain. They need to be able to see all costs, to view operation activities, and to predict how economic, financial, and political conditions can impact their supply chains.”

Taimour Zaman

Access Group research, 2007

Enlisting the shop floor in *innovation*

Collaborative and knowledge based organizations will prevail in the coming era of increasing talent shortages and complexity.

Case study 5

seek shop floor help in solving business problems

The Canadian operations of a large US based tire manufacturer include three relatively small locations in Alberta, Quebec and Northern Ontario. Two of these facilities had been the periodic focus of shut down studies, with the US Corporate group always looking to rationalize worldwide operations. Both facilities survived and prospered due to unplanned circumstances. The point is that they are still here because of the strength of the shop floor and the people involved at a local level.

By unlocking shop floor knowledge and enthusiasm, the company found new business opportunities, creating new products using 'obsolete' machinery. In so doing, they fostered a can-do survival attitude. This corresponds to the Japanese experience from the 1950's through the 70's, when the country's manufacturers had little capital, weren't large, and did not have volume equipment. In the Canadian case, the facilities were not part of large scale upgrading plans, so they had almost no money and had to innovate

using existing resources. They made the case to the parent to secure modest additional capital, and received management support. Their old, small volume equipment was well-suited for development work that created niche market products – meeting customer needs - which the mass manufacturing plants were not interested in making. Experimental work on high volume production equipment is an expensive luxury that is difficult to schedule in a large facility. Manufacturing of niche products means these small factories are not as threatened by global rationalization so long as the markets for their goods remain viable, and high margins are more likely here than if mass manufacturers played in these markets.

Gary Blake, Goodyear Canada

What did the panel say?

- Obtain innovation from many sources – it is not just about “forgotten branch plants” but also single entity companies, and applying techniques such as Don Tapscott's 'Wikinomics' collaborative development approach
- Engage the entire work force wherever a spark of intuition or innovation can be found – to get a better differentiation strategy and momentum
- Continuous improvement on the shop floor worked for us even with a low-skilled workforce – responsibility was assumed, little changes became success factors

Enlisting the shop floor in innovation (..continued)

- Our plant in South Africa empowered people on their shop floor and got productivity improvement twice that in Canada, sharing metrics and overcoming quality issues by energizing the work force
- You never know where ideas will come from until there is an information flow that looks like a dialog – innovation often comes from recognizing internal resources
- Treat people fairly and allowing them to make and correct mistakes – profile the best people and allow them to do creative things
- Companies who have involved the shop floor to increase efficiencies have gained real benefits; however, the same internal shop floor's knowledge and enthusiasm could also be engaged to continuously improve the customer and supplier interactions, according to Stuart Pothan, Director, Professional Services, Manufacturing, Allstream
- Town hall meetings involve the workforce in solving issues – invite people to participate, assign input requirements, watch people become more participatory
- Canadian manufacturers can learn from the example of the Japanese competing on process and quality innovation in the 1980s when they had no capital, weren't large, and did not have volume equipment
- Toyota's current production system can be viewed by Canadian manufacturers – Toyota will accommodate plant tours as they are already working on the next wave

of manufacturing innovation and so replicating what they do today does not impact them competitively

- Canadian manufacturing has a highly educated workforce compared to other countries – skills, ability to bring in tools, and implementation knowledge

How does the panel think this is important?

- Local people are more responsive at solving problems because they have more information at their finger tips – the best ideas never come from corporate, rather incremental changes best come from the shop floor and are often sold first into the local market



Taking Advantage of Government Assistance

Government has helped significantly with support programs and getting a more level playing field.

Case study 6

government help can make a difference

An 80-year Toronto company employing 600 people recycled 2 million tires a year. Seventy percent of the customers were in the auto industry. Losses meant it took 75 days to pay suppliers. In a year, they went from four plants to two, shedding 30% of sales and 60% of the work force by eliminating low labour products without a competitive advantage. Despite this, the company would not have survived if the government had not made a \$5 billion investment that saved five of his auto assembly plant customers, including Honda and Toyota. There is concern today about the degree of Federal government support for the Ontario economy.

AI Power, previously at National Rubber

Many industrial organizations are looking at:

- pushing the government to ease existing immigration laws
- targeting the new economy worker – baby boomers
- training mid level managers to be able to take senior roles in upcoming years
- outsourcing non-core activities

Taimour Zaman

Access Group research, 2007



What did the panel say?

- Take advantage of government programs to drive productivity, like Scientific Research & Experimental Development and accelerated tax write offs
- The Department of Foreign Affairs is spending is \$200 million a year on trade offices around the world providing services available to Canadian manufacturers

How does the panel think this is important?

- Manufacturing issues now have Canadian government attention, for example the talent and skills side of immigration, but still need more public visibility

Next Steps: Roundtable ‘Take-aways’

The Roundtable participants do not have a simple recipe for success. They say competitive costs are key but other factors are more strategic – like a continuous search for quality and innovation, unique solutions supported by business cases, and adding value through partnerships and alliances. At the close of the discussion, the Roundtable participants made a number of suggestions for next steps, for example:

- 1 Ask your team if the strategy is still good enough if the Canadian dollar goes to \$1.25 rather than the parity many have recently concentrated on
- 2 Look at the whole world as a place in which to do business
- 3 Strategy is critical, but make sure you get the tools right as well
- 4 Continue to implement ‘Lean’, practiced more widely today and often working well, but now is also the time for better marketing
- 5 Push the experimental process to the top of the company – and stop procrastinating!
- 6 Capitalize on the advantage over US ‘operations complacency’ when the rising Canadian dollar has already forced us to examine our own competitiveness

- 7 Re-visit your business vision and customer relationships, and ensure you add value through technology solution implementation and process improvements
- 8 Pull more of your workforce into solving problems – use their diverse brain power and the organization’s culture to improve how you do business – sustaining a skilled and self-managed workforce’s knowledge will attract and retain them
- 9 Articulate your company’s value to your customer’s customer, otherwise you may just be ‘making devices’ and just thinking ‘commodity’
- 10 Use Government assistance in sales and marketing, trade missions, networking, incentive programs for innovation, and problem solving

Manufacturing organizations will need to know how to cater their supply chains to mass merchants, specialty stores, and other channels, in order to serve this new upcoming trend, according to the Access Group’s **Taimour Zaman**.

Robert Angel
Toronto
October 10, 2007

Our thanks go to our *panellists* and *sponsors* for their contributions:

Roundtable Panel:

Leigh Wright, VP & GM, Accuride Steel Wheels

Tim Olliver, Director Corporate Relations, Canadian Manufacturers & Exporters

Zamal Ruffudeen, VP Finance & IT, GSW Water Heating

Chris Piper, Associate Professor, Director - Competitive Excellence through Operations, Richard Ivey School of Business

AI Power, President & CEO, Van Rob Inc.

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Cisco appreciated the candour and openness of the participants, as we all learn and improve when allowed to discuss major issues in such an open and collaborative format. For more information, visit

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Richard Ivey School of Business, The University of Western Ontario

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