

department BUSINESS SURVIVAL STRATEGIES

by Thomas R. Cutler



Thomas R. Cutler is the President & CEO of Fort Lauderdale, FL-based TR Cutler, Inc., a firm specializing in marketing for the North American manufacturing sector. Cutler is the founder of the Manufacturing Media Consortium of 2,700 journalists and editors writing about trends in manufacturing. Cutler is also the author of the Manufacturers' Public Relations and Media Guide.

Productivity, profit primary motivators for entering emerging markets

Despite the perils of paint tainted with lead in children's toys, and poison in petfood products, the power of profit entices Canadian manufacturers into emerging markets which offer attractive growth opportunities. Fear, inexperience, and lack of a quality process control, causes less than one quarter of Canadian companies to enter the significant market potential of China, India, Russia, and South America. When functioning at the global level Canadian manufacturing companies can expect much higher revenue growth when taking advantage of emerging markets.

Canadian productivity level, which measures the amount of re-

sources required to produce a product is stagnating. Increases in capital, labor, and raw materials produce barely any additional output. For the past five years, the output per hour in the Canadian business sector grew only 1% annually, down from 2.4% in the previous five years. Canada has lost ground to international competition. Canadian business productivity is slipping relative to many members of the Organization for Economic Co-operation and Development (OECD). Four decades ago Canada was ranked third, today 17th. The public and private sectors might work together on a productivity agenda that might include reduction in the federal debt-

to-GDP ratio; elimination of inter-provincial trade barriers; removal of foreign ownership restrictions in key sectors; cutting the tax rate on capital; aligning immigration and economic objectives; greater investments in infrastructure, education and knowledge-based industries. Whether some or all of these productivity efforts transpire, profitability drives current free market capitalism.

The cost of materials and labor required to manufacture products tends to be far lower than in developed markets and the populations of the emerging markets represent significant revenue-earning potential, provided the manufacturer

can adapt its product offering to the realities of that local market. It is difficult to ignore an Indian and Chinese population of more than two billion, seven times larger than all of North America. Ignoring these markets represent a significant missed opportunity for Canadian manufacturers.

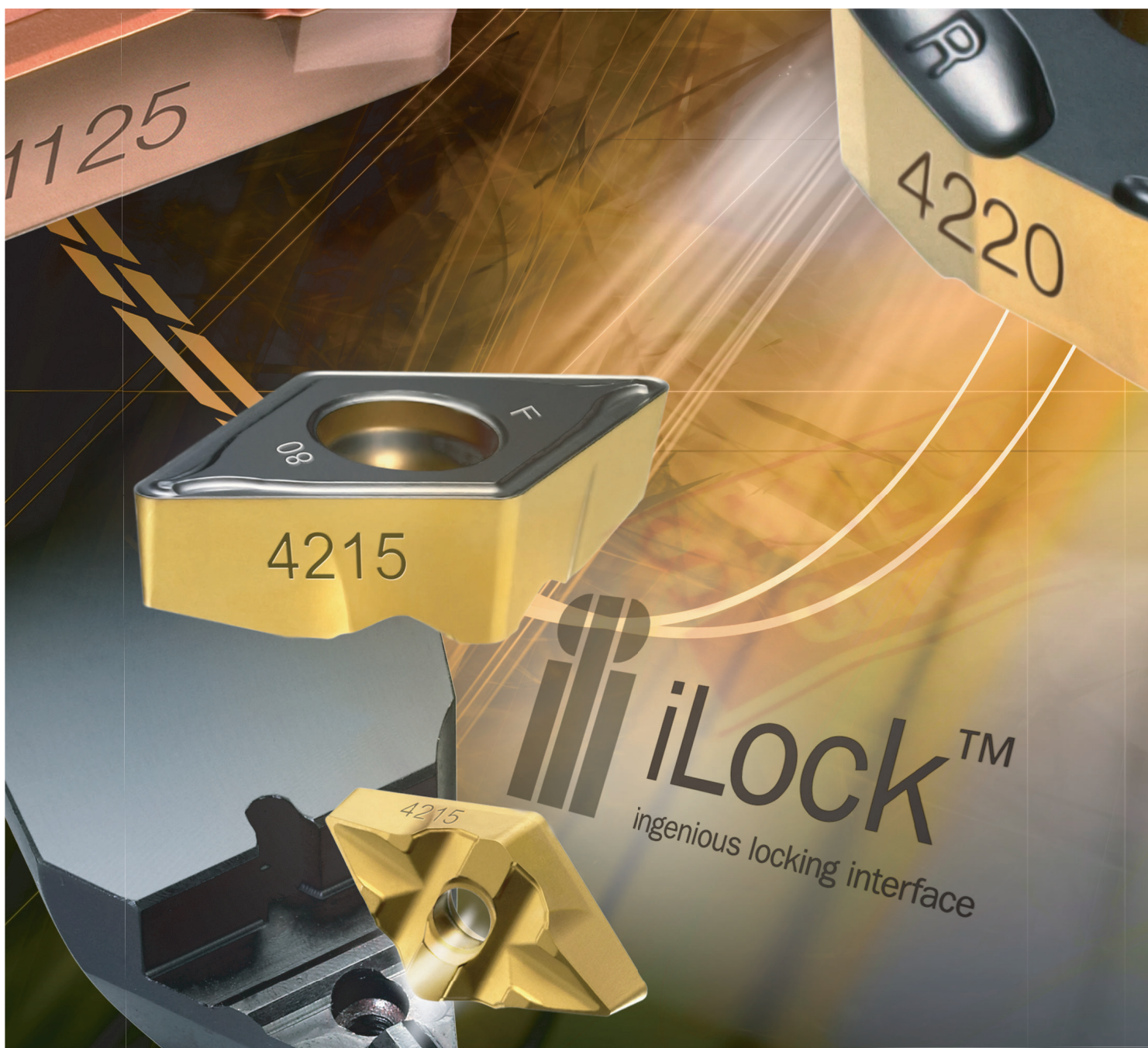
Competition from international manufacturers working in emerging markets and exporting their goods to Canada creates a dramatic trade imbalance if these markets are ignored as global clientele. Thanks to the recent strengthening of the Canadian dollar, Canadian manufacturers could achieve a big boost in profitability.

Most Canadian businesses are unprepared to deal with the rise of China as an economic power, according to a new study of manufacturers and exporters. Just over one third of the companies surveyed are already doing business with China, the majority of them with less than three years' experience. The results of the survey are contained in a report, Canadian Business Views on China, released recently by the Asia Pacific Foundation of Canada and Canadian Manufacturers & Exporters (CME).

The study found that only 17% of companies have developed a formal strategy for responding to the economic rise of China. The businesses which are most "China ready" are large companies working in the global market. The principal reasons for developing China strategies were ranked: maintain global competitiveness, access the China market, and to take advantage of lower labor costs.

According to the Foundation's President and co-CEO, Yuen Pau Woo, "Canadian businesses are beginning to understand the importance of China as an economic power, but most companies are ill-prepared to respond to the challenges and opportunities of an ascendant China. It has become commonplace to speak of the need for companies to develop 'China strategies' whether or not they are currently involved in business with China. These strategies should consider not only traditional business models of exporting, outsourcing, and low-cost imports, but have to also take into account broader factors such as the impact of Chinese market power on factor inputs, the role of production networks in sourcing decisions, and the integration of investment and trade, as well as product design and development."

Canadian companies are divided in their view of China. One-third saw China as more of an opportunity versus 31% considered China as more of a threat. Companies that are already doing business with China are much more inclined to consider China as an opportunity. The principle challenges posed by China were ranked as well: competition in Canada, competition in the United States, and protection of intellectual property. The survey of 986 companies was based on the membership of CME, which covers three-fourths of Canada's manufacturing output and around 90% of its exports.



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