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INDUSTRIAL MARKETS

Reshaping the supply chain: new opportunities for Canadian manufacturers

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Foreword

Minimizing costs. Reducing risks. These are the two main recognized concerns for Canadian manufacturers today and for the next 2 years. And it is no wonder. The economic downturn and slow recovery have significantly impacted the Canadian manufacturing industry. Over the last year alone, volatility in the global economy has seen production rise and fall, while employment figures remained consistently weak. Nevertheless, while business attitudes have vacillated between confidence and caution, there is optimism among manufacturers in Canada, with leaders in the industry focused on moving forward and making the necessary changes to compete and succeed.

Building trust. Expanding into new markets. These are two other themes we uncovered in this survey of Canadian manufacturers. These themes speak to the kind of optimism that prevails in the industry today. While manufacturers are seeking to minimize costs, they are searching for ways to do it intelligently while maintaining or even increasing their competitive advantage for the future. They want to develop deeper, longer-term relationships with trusted suppliers in order to help mitigate their most significant risks, such as reliability of supply. And they are looking to emerging markets such as China to help them gain cost efficiencies.

It is this focus on cost and risk mitigation that may provide Canadian manufacturers with the keys to remaining competitive through the ups and downs of the market. While economic, political, and regulatory uncertainties may be holding back some global manufacturers from making bold changes to their supply chain structures, the current environment may also serve as an opportunity for Canadian manufacturers, which benefit from a more stable economic, tax, and regulatory regime, as well as steady capital and credit markets. If they continue to manage risk, while at the same time exploring and realizing some of the opportunities that exist in the supply chain, Canadian manufacturers will likely be stronger for it.

There's a strength in our conservatism as Canadians. Canadian banks were much more conservative than global institutions and they came through the economic crisis in a much better position. Similarly, manufacturers that continue to deliver quality, manage their risks, and deliver on a timely basis—accomplishing all of the things that concern Canadian manufacturers the most—will likely be stronger for it.

Ultimately, there has to be a balance between cost savings, which manufacturers globally are pursuing, and risk. Consistent with our global reputation, Canadian manufacturers are taking a balanced approach between cost and risk which can make Canadian manufacturers more competitive in the long run.

However, Canadian manufacturers should increase their focus on innovation. While cost and risk will continue to be key priorities, sooner or later Canadian manufacturers should get ahead of the wave and start thinking more about innovation on a product and process level. If not, global manufacturers will likely surge ahead based on cost and other competitive factors, forcing Canadian manufacturers to find new ways to compete. In the long term, innovation can provide the greatest opportunity for competitiveness.

Jonathan Kallner
National Industry Leader, Industrial Markets , KPMG

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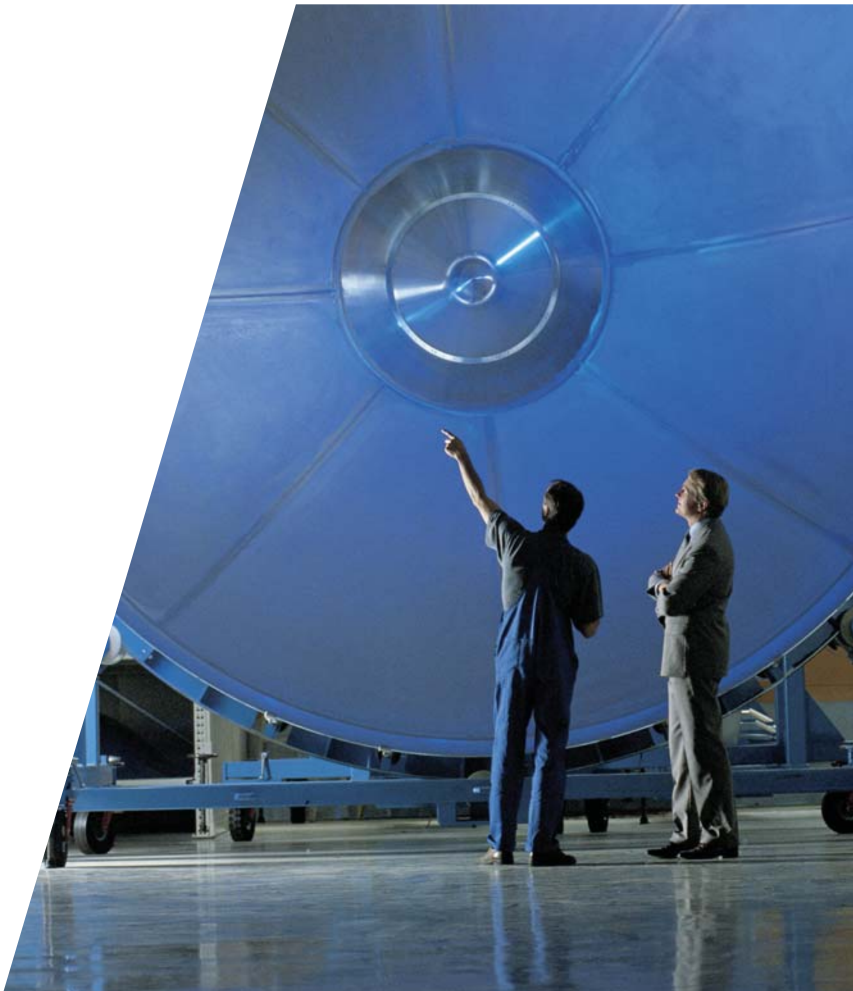


Executive summary

As a result of the economic downturn, manufacturers experienced a relatively short yet very sharp shock, followed by a quick partial rebound in demand aided by substantial government spending worldwide. But despite cautious optimism for a lasting recovery, significant uncertainty about the future remains, especially as stimulus programs tail off. With a significant client base south of the border, Canadian manufacturers are impacted greatly by the US economy, and as it rebounds, Canadian manufacturers will be affected. In fact, two of the most significant trends affecting the Canadian market are the demand from the US and the supply from China and India.

Other key findings of the survey are:

Cost minimization is the biggest concern among manufacturers around the world, but especially in Canada. While minimizing costs is an important element of any supply chain strategy, manufacturers risk missing opportunities when their focus is so narrow. Canadian manufacturers should ensure they continue to invest in innovation, product development, and research and development (R&D) to remain competitive.

Canada has a lower tolerance for risk. Canadian manufacturers prefer to avoid high-risk jurisdictions, but global manufacturers are willing to manage the risks in order to reap the cost savings. Canadian manufacturers also prefer to conduct R&D and maintain intellectual property in-house, whereas global manufacturers are prepared to outsource these elements of the supply chain either through an outsourcing arrangement or a partnership to share resources and risk.

Canadian manufacturers plan to deepen and broaden their relationships with suppliers in an effort to reduce risk and minimize cost. Many manufacturers are looking for longer-term relationships with suppliers and more than half plan either to collaborate more closely with suppliers on—or give them responsibility for—cost reduction, supply chain agility, and product innovation.

Low-cost country sourcing will be a focus in the next 2 years for many Canadian manufacturers, with China as the major beneficiary. Increased quality and reliability among suppliers in China is making this low-cost jurisdiction more appealing for Canadian manufacturers, and India is also an emerging market that Canadians are considering for cost savings. This expansion east will go hand in hand with a decrease in sourcing in Canada and the US, which are increasingly being seen as high-cost sourcing countries.

Introduction

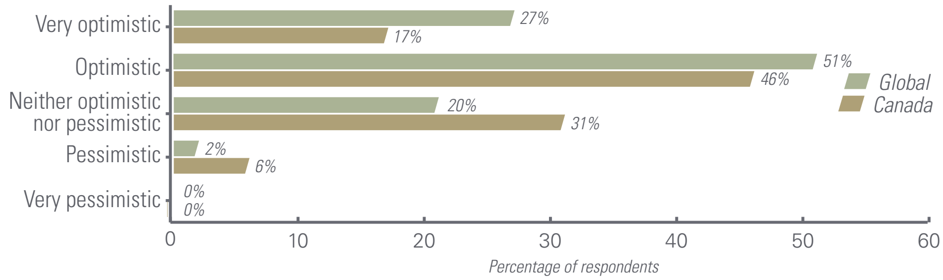
The economic downturn was a sharp one for manufacturing: global industrial production dropped 9.2 percent in 2009 after rising just 0.1 percent in 2008, according to Economist Intelligence Unit data. [1]

A full recovery to 2007 levels is not expected until 2011, underscoring continued market uncertainty.

These annual figures tell only part of the whole story, however, as rapid shifts occurred within each year. JP Morgan's Global Manufacturing Purchasing Managers Index (PMI), as well as most national PMIs, showed a sharp drop in output beginning in mid-2008 as manufacturers slashed inventory. The decline briefly touched bottom in January 2009, followed by a surprisingly rapid improvement. By the middle of 2009, manufacturing output had even begun to increase. In Canada, the Ivey PMI stood at 70.3 for September 2010, up from 61.7 in September 2009. [2]

KPMG's survey of Canadian manufacturers reflects a very positive outlook, especially considering that the industry had experienced a fairly significantly hit during the economic downturn. A solid 63 percent of respondents are either optimistic or very optimistic about the next 12 to 24 months, compared to 78 percent globally; while 6 percent are pessimistic, compared to 2 percent globally. According to the latest economic indicators, though, the outlook is far from clear. In such an unpredictable environment, weakening of demand for manufactured goods will naturally make for sustained pressure on manufacturers' supply chains. Our study looks at how industrial manufacturers are adjusting.

Business outlook in the next 12 to 24 months



1 *Global Manufacturing Outlook*, KPMG International, 2010

2 Ivey Purchasing Managers Index – http://iveypmi.uwo.ca

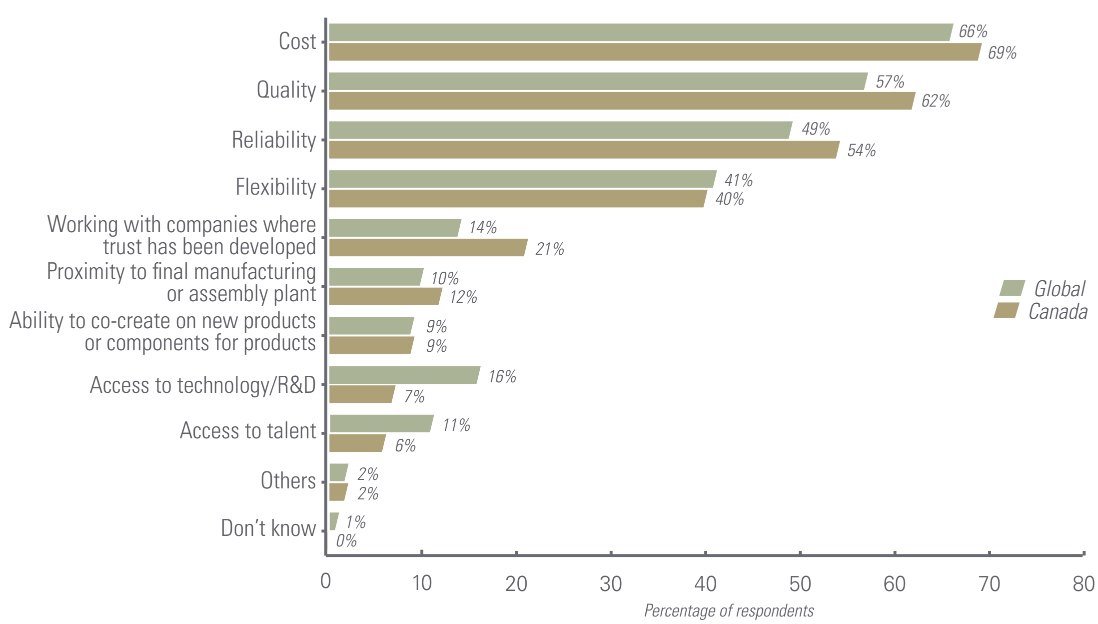
Due to rounding graphs and charts may not equal 100 percent.

Cost, quality, reliability, and flexibility are clearly top priorities for both Canadian and global manufacturers. The areas in which Canadian manufacturers differ from global manufacturers relate to trust and innovation. Working with suppliers they trust emerges as an important attribute for Canadian manufacturers (21 percent), but it is not as relevant to global manufacturers (14 percent). Instead, global manufacturers saw access to technology and R&D as a relevant driver for their supply chains (16 percent), along with access to talent (11 percent), whereas Canadian manufacturers rated these areas less favourably (7 percent and 6 percent, respectively).

This focus among Canadian manufacturers on trust and low risk tolerance emerges repeatedly in the survey results. This point is in stark contrast to the responses of global manufacturers, which tend to take a greater interest in managing risks in order to gain cost efficiencies, and increase innovation.

It is easy to see that Canadian manufacturers are much more focused on risk compared to global manufacturers. Almost 60 percent agree that they have been forced by changing economic circumstances to develop a new business model that reduces supply chain risk, compared to only 43 percent of global manufacturers. And 53 percent of Canadian manufactures say the economic downturn damaged long-term relations with their suppliers, forcing them to focus exclusively on cost at the expense of other considerations, compared to only 38 percent of global manufacturers. As a result, 59 percent of Canadian manufacturers say a growing appreciation of the costs and potential risks of outsourcing has led them to consider bringing more of the supply chain back inside the company, compared to only 40 percent globally. Canadians' low tolerance for risk has clearly intensified during the economic downturn, more than it has for manufacturers globally.

Important attributes of supply chain



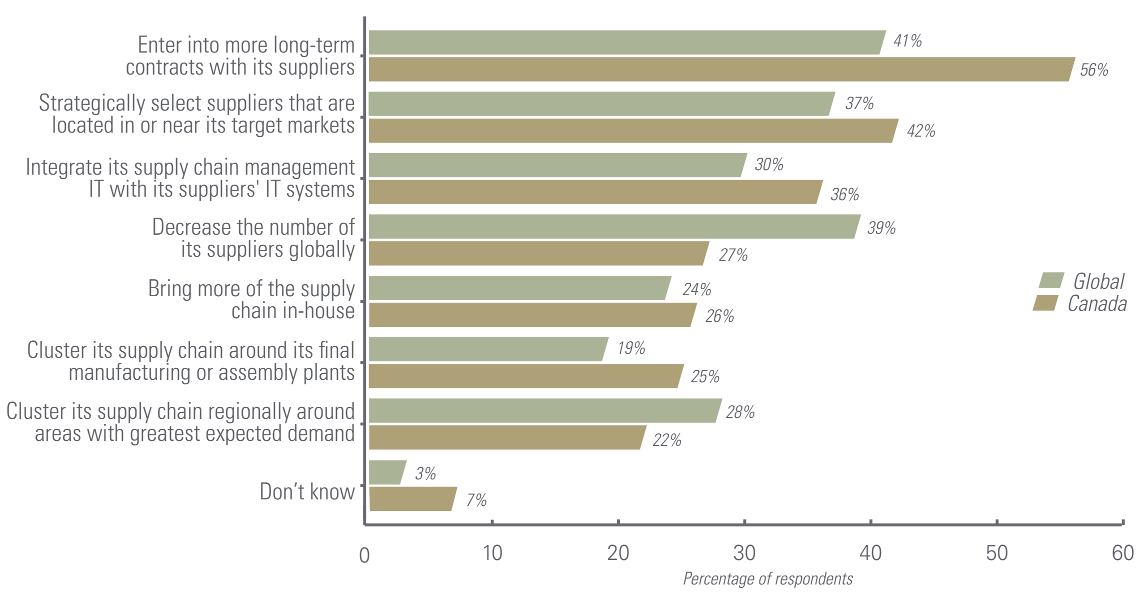
The evolution of supplier relationships

Is there strength in (fewer) numbers?

The change that Canadian manufacturers believe will have the biggest impact on strengthening their supply chains in the next 2 years is entering into more long-term contracts with their suppliers.

The majority of respondents (56 percent) indicated that deeper, closer relationships with their suppliers will be a key shift in their supply chain strategy, compared to 41 percent among global manufacturers. Where Canadian manufacturers also differ from their global counterparts is in adjustments to the number of global suppliers. Almost 40 percent of global manufacturers indicate they will decrease the number of global suppliers over the next 2 years, compared with only 27 percent of Canadian respondents. With cost as the key supply chain focus nationally and internationally, this suggests that global manufacturers are more focused on streamlining operations and developing deeper relationships with fewer global suppliers to attain the cost efficiencies everyone is after. Canadian manufacturers are lagging in this regard, perhaps due to being slower to develop a global supplier base, and are still catching up with developing relationships outside their borders for new sourcing opportunities to help drive cost reduction.

Expected change in supply chain strategy



Regardless whether they are shifting activities to suppliers or collaborating more closely with them, the area that Canadian manufacturers say they will focus on most is cost reduction (78 percent), compared with 69 percent of global manufacturers. At the same time, 63 percent of global manufacturers plan to shift responsibility or increase collaboration with suppliers to help with supply chain agility, compared to only 55 percent of Canadian respondents. This suggests a greater emphasis on supply chain responsiveness, flexibility and scalability at the global level. Agility has been a high priority from a supply chain perspective for the last 5 to 10 years, which has allowed global manufacturers to realize the importance of agility to squeezing out additional efficiencies and growth, making the focus on cost reduction less crucial. What can Canadian manufacturers learn from this? While cost reduction should continue to play an important role with suppliers, in order to catch up to their global counterparts, Canadian manufacturers should also consider their ability to adapt quickly to changing demand patterns and to minimize inventory throughout the extended value chain as more strategic, long-term opportunities to reduce costs and risks.

Optimizing long-term supplier contracts

In today's cost-sensitive business environment, Canadian manufacturers can leverage extended relationships with external suppliers as a means of cutting cost from their business operations. Critical success factors include the following:

- Taking an informed approach to the contract development process
- Incorporating contract governance processes from the very beginning
- Building key control points into the contract life cycle, where progress can be measured against goals
- Establishing a risk-mitigation strategy around operational issues, missed deadlines, or financial overruns.

With the right strategies, effective ways to optimize performance can be found at almost every stage of the contract life cycle—not just during the initial negotiations.

Canada's generous R&D tax incentives

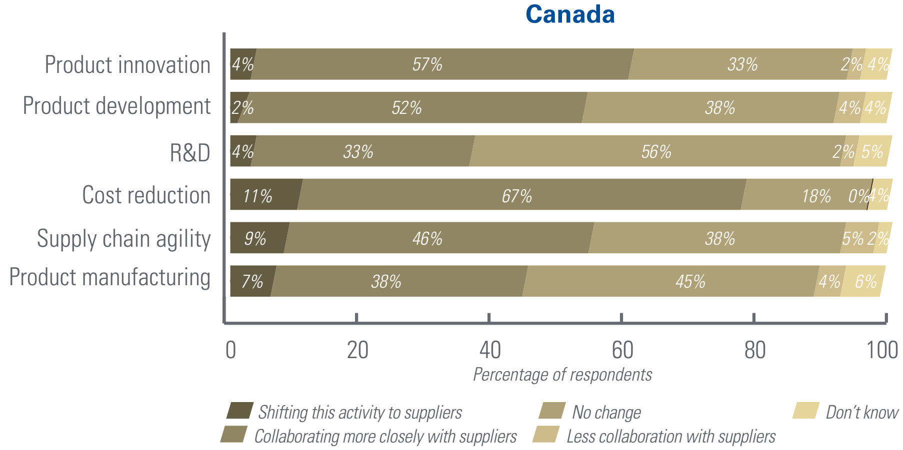
Through its tax incentive program for technological innovation, the federal government delivers over $3 billion annually to manufacturers doing R&D in Canada. The Organisation for Economic Co-operation and Development (OECD) has found that the strong federal and provincial tax incentives available to R&D performers in Canada make the after-tax cost of R&D cheaper here than almost anywhere else in the world.

However, some manufacturers find navigating the rules and regulations of Canada's R&D tax incentive program a daunting task, which perhaps prevents them from taking full advantage of the costs savings available and contributes to their view of Canada as a high-cost jurisdiction. Also, some Canadian manufacturers that are already claiming tax credits often miss out on the full scope of credits available. In many cases this is a missed opportunity, since these tax credits can be used to offset taxes payable and, in some cases, may include cash payments.

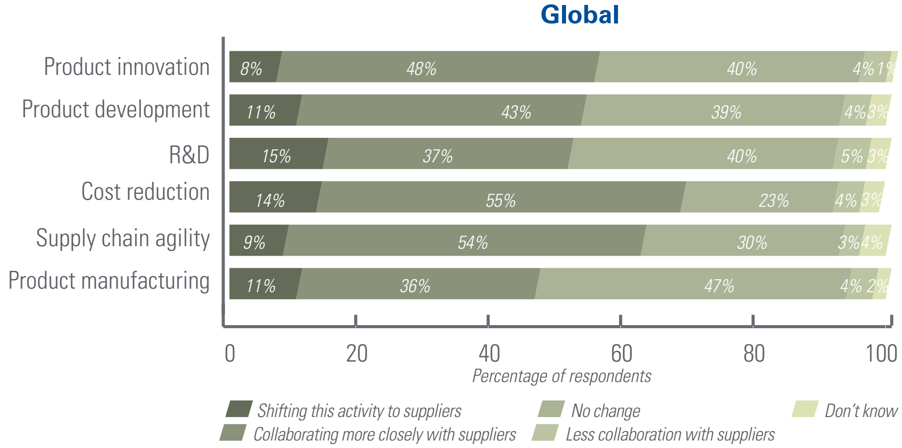
Both Canadian and global manufacturers see value in placing greater reliance on suppliers in the areas of product innovation (61 percent and 56 percent, respectively) and product development (54 percent for both), perhaps as a way of generating additional demand. Where Canada does fall behind, however, is in the area of R&D. Only 37 percent of Canadian manufacturers plan to shift or collaborate more with suppliers on R&D, compared to 52 percent of global manufacturers. This suggests that global manufacturers are thinking even further ahead in terms of new products and processes to help meet the growing demands of their customers, and are seeking to access knowledge and resources among their suppliers to help them achieve their goals.

Expected change in supplier relationship

Canada

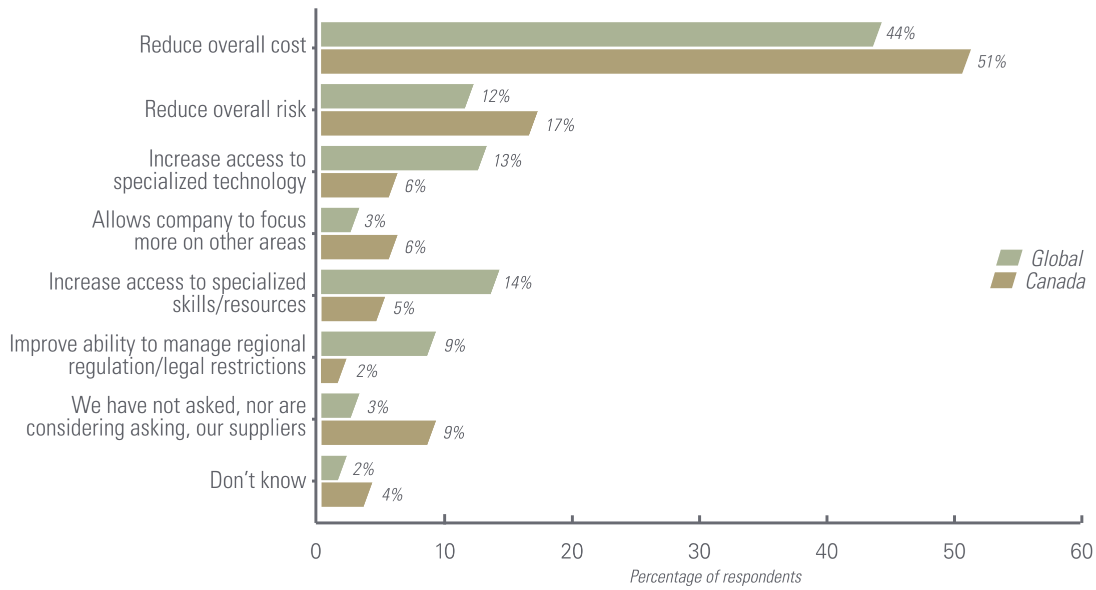


Global



Historically, cost has been a top priority for manufacturers, and today's Canadian manufacturers are no exception. Comparing the focus of Canadian versus global manufacturers, however, we see that Canadians tend to concentrate more on reducing overall cost (51 percent versus 44 percent) and reducing overall risk (17 percent, versus 12 percent) over other elements of their supply chain. Cost reduction and risk avoidance emerged as two key themes for Canadian manufacturers, suggesting that Canada might be placing too much emphasis on minimizing cost and risk, and not enough on R&D and innovation on an ongoing, strategic basis. When asked to name some of the other key drivers for expanding collaboration with suppliers, only 6 percent of Canadian manufacturers indicate that they hoped to increase access to specialized technology, compared to 13 percent globally, and just 5 percent are looking to increase access to specialized skills and resources, compared to 14 percent globally.

Drivers to increase supplier involvement



Eastward bound: weighing the value of global sourcing

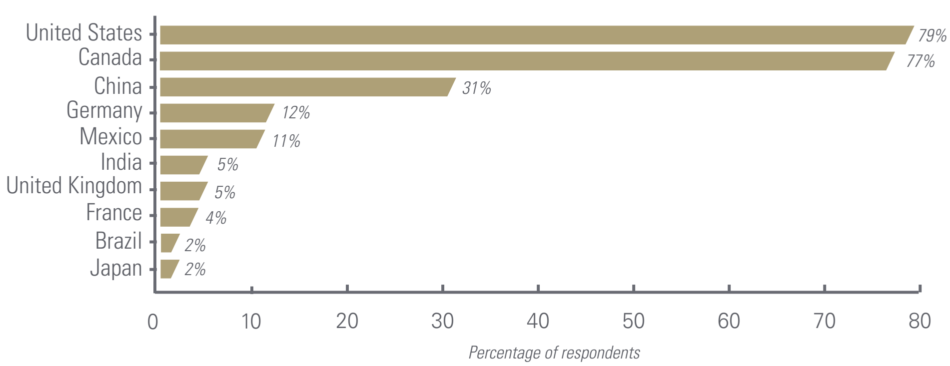
Do we stay or do we go?

Canadian and global manufacturers have different approaches to sourcing locations. Currently, Canadian manufacturers source primarily from the US and Canada (79 percent and 77 percent), with China, less than half as popular, in third place (31 percent). Globally, China is the top sourcing location (35 percent), followed by the US (30 percent), and Germany (26 percent).

When asked from which locations manufacturers expect to increase sourcing in the next 2 years, however, Canadians rank China as the top priority (44 percent), followed by the US (40 percent), and Canada (30 percent). India, surprisingly, ranks only fifth at 16 percent among Canadian manufacturers, whereas globally it ranks second (26 percent) only to China (39 percent). While there is a growing comfort level with suppliers in China and their ability to deliver higher quality products on a more regular basis, the reliability of suppliers in India is still being tested. Perhaps Canadian manufacturers' low risk tolerance is again playing a role, this time by keeping them from venturing into partnerships with Indian suppliers, whereas globally, the benefits of this low-cost jurisdiction seem to be attractive enough to outweigh the risks.

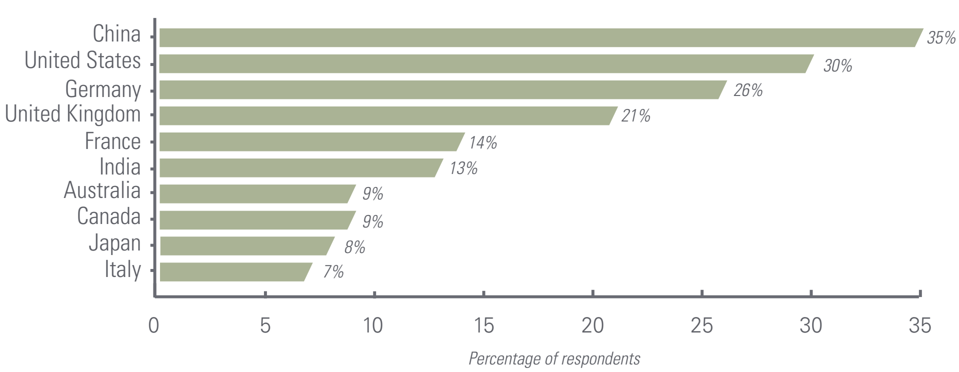
Top current primary sourcing locations

Canada



Top current primary sourcing locations

Global



Globally and nationally, manufacturers plan to decrease sourcing over the next 2 years in mature markets such as Canada and the US, helping them to realize even more cost savings within their supply chain.

No matter where manufacturers are located, when looking at low-cost jurisdictions, the key elements of their supply chain that they expect to offshore tend to be production of goods involving little intellectual property. Production of goods involving significant intellectual property is often fulfilled in the US by both groups of manufacturers. When considering locations to fulfill R&D, however, global and Canadian manufacturers vary in their approaches. Both outsource R&D most heavily to the US (31 percent of Canadian manufacturers and 64 percent of global manufacturers), but only 14 percent of Canadian manufacturers have R&D fulfilled in Canada, compared to 22 percent of global manufacturers. At the same time, only 13 percent of Canadians are comfortable outsourcing R&D to China, compared to 29 percent of global manufacturers.

Warehousing, transport, and logistics are largely fulfilled for Canadian manufacturers in Canada (77 percent) and the US (55 percent), whereas global manufacturers look primarily to China (51 percent), the US (36 percent), and India (34 percent). This suggests that while reducing risks associated with delivery is important to Canadian manufacturers, global manufacturers are using their presence in these emerging markets to gain further cost efficiencies related to warehousing and transportation.

India and China: Hotspots for global sourcing

China's rising importance in global outsourcing is unmistakable. With focus and key investments from the government in the areas of technology, education, and infrastructure, China has emerged as a favourable destination for outsourcing manufacturing products and processes. India, too, is rapidly building a vibrant and modern economy, and this growth is creating many opportunities for Canadian enterprises. While the potential rewards can be extraordinary, identifying and capitalizing on these opportunities is not easy or straightforward.

Language and cultural differences, unfamiliar business customs, and tax and regulatory regimes can make business and investment transactions in China and India complex and challenging.

It is important to recognize and understand the risks that accompany different outsourcing choices and to put measures in place to mitigate them. This could include developing contingency plans, risk mitigation strategies, and back-ups, as well as evaluating what would be a key loss.

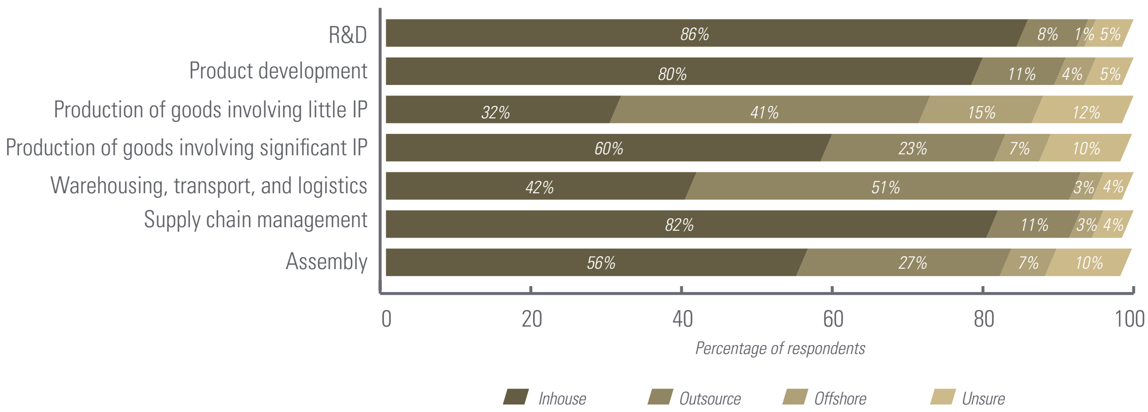
In addition to considerations regarding how to enter these markets—think partnership, strategic alliance, or joint venture with Chinese or Indian manufacturers, or with experienced domestic organizations—other key considerations when offshoring to China or India include:

- Business resilience and continuity
- Compliance exposure
- Costs, currency fluctuations, and inflation
- Cultural differences
- Experience in delivering on large contracts
- Information security and data privacy
- Intellectual property rights
- Labour laws
- Language capability
- Location differences
- Political influences
- Quality of graduate talent
- Quality of services
- Remote service delivery
- Staff loyalty and turnover
- Transition of processes.

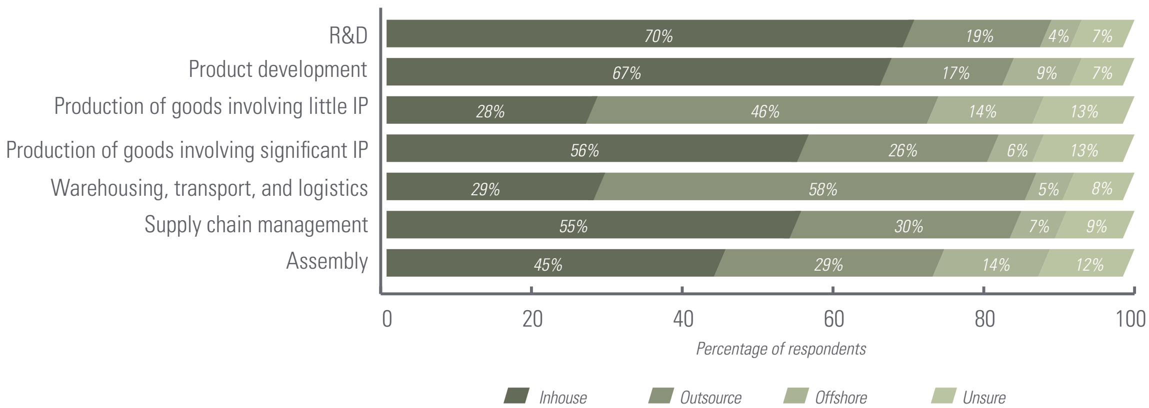
Predictably, Canadians appear less likely to take on some of the risks associated with sourcing in countries that experience high political volatility, currency fluctuation, and regulatory and tax burdens. These jurisdictions tend to be the ones with the lowest costs, however, and global manufacturers seem prepared to try to manage the risks through various strategies, such as strategic alliances and joint ventures, to achieve cost savings.

Expected changes in the supply chain elements (outsource/offshore/in-house)

Canada



Global



KPMG viewpoint Aerospace & defence

A significant challenge in the Aerospace & Defence (A&D) sector is how to deal with the shrinking defence budgets in many traditional markets around the world. Many Canadian A&D manufacturers play on the international stage, bidding on and fulfilling contracts in the US, UK, Australia, and elsewhere. Due to the size of the Canadian A&D market, a significant portion of this sector's revenue comes from outside of Canada. So, although there are still contracts available, manufacturers are being challenged to react to shifting demands, and are looking for ways to remain competitive and find new markets.

"Like the majority of Canadian manufacturers, cost continues to be a key issue for A&D manufacturers," says Grant McDonald, National Leader, Aerospace & Defence, KPMG. "We are seeing some retrenchment, including reduced head count, a result of certain program delays or reductions, as well as cost containment." On the strategic front, some A&D manufacturers are conducting more detailed operational and financial reviews so that they can make better, more informed decisions. "A&D manufacturers involve high levels of intellectual property and highly skilled workforce and management teams, so they are very engaged in applying the most current tools and approaches to improving their business."

Consistent with the global trend among manufacturers, Canadian A&D manufacturers are also trying to deepen relationships with fewer global suppliers. The Canadian A&D market is not as large as others around the world, so Canadian manufacturers must be more prudent with their resources. In an industry where the revenue from a multi-year contract often runs in the millions or even billions of dollars, but at the same time reflects a fairly restrained bottom line, having larger numbers of global suppliers can be more costly and complicated, spreading resources too thin. Some organizations are looking to much deeper relationships with fewer foreign suppliers to help spread the risk and the cost associated with fulfilling these long-term contracts.

Another area that Canadian A&D manufacturers are investigating is how emerging markets can help them access the talent and technology they need, while at the same time helping them to achieve the cost savings they are after. For example, while Mexico ranks fifth (11 percent) as a primary sourcing location among Canadian manufacturers (although, it did not even make the list on a global level), it offers some Canadian A&D manufacturers the combined benefits of low-cost labour and low-cost transportation in North America. In fact, Mexico ranked first in KPMG's biannual *Competitive Alternatives* ranking of international business locations. [3]

Mexico also offers access to talent and knowledge through large A&D manufacturing parks, such as the one in Chihuahua, less than 350 km south of the US border. "The park contains numerous buildings with multiple A&D manufacturers, including a college with an aerospace training program to recruit from," says Grant. "For some in the industry, it's an appealing option."

Other low-cost jurisdictions such as India and China present key growth opportunities for the industry from both a supply chain and demand perspective. In India alone, the drive by the Indian government to modernize its armed forces over the last few years has seen its defence budget increase by almost 35 percent to INR 1,420 billion in 2009/10. In addition to emerging markets like India, China, and Vietnam, growth for A&D firms can be found in the Middle East, South America, and Africa. Brazil, for example, is expected to improve its defence and homeland security capabilities to support its hosting of upcoming world events, including the 2014 World Cup and the 2016 Summer Olympics. But Canadian players may not know how to get into these markets or who to talk to. "Whether A&D manufacturers are large or small," says Grant, "If they want to grow in these markets, they need to look for partnerships, joint ventures, or strategic alliances—more out-of-the-box ways of partnering with others—often with manufacturers already in the local market." With any of these ventures comes challenges, so manufacturers should look closely at the risks and the benefits to determine the best business model to enter the market.

3 *Competitive Alternatives 2010* - http://www.competitivealternatives.com/

Ensuring flexibility in the supply chain

Are there opportunities for Canadian manufacturers to do more?

In the current market, both national and international manufacturers are extremely concerned about labour costs, other cost uncertainties, their ability to source material, and quality. A higher number of Canadian responses (61 percent, 61 percent, 74 percent and 73 percent, compared to 40 percent, 48 percent, 39 percent, and 46 percent for global manufacturers) tend to indicate higher levels of anxiety in each case, reaffirming Canadians' greater intolerance to risk.

Looking 2 years out, the anxiety levels decrease somewhat, which perhaps reflects optimism on the part of Canadian manufacturers, but the atmosphere of concern is still more intense than among global manufacturers.

When it comes to tooling, the favoured approach among Canadian manufacturers is to own the tooling used by the supplier (38 percent, compared to 27 percent globally). This suggests that more Canadian manufacturers believe it is easier in the long run for them to concern themselves with all the process-related issues that come with owning tooling, rather than depend on a supplier to do it. This again reinforces the low risk tolerance that exists among Canadian manufacturers and their view that the key role for their suppliers is to reduce costs, rather than assist with innovation.

Supplier relationships – Biggest concerns today and in the next 2 years

Concerns	Canada				Global (n= 196*)	
	Top Concerns Today		Top Concerns Next 2 years		Top Concerns Today	Top Concerns Next 2 years
Labour cost	61%	57	43%	56	40%	36%
Cost uncertainties (transport/fuel costs, currency fluctuations, etc)	61%	62	52%	58	48%	44%
Supplier ability to deliver according to contract	74%	54	50%	58	39%	26%
Quality	73%	59	57%	63	46%	42%
Distance of supplier from location of next stage in supply chain	39%	44	36%	42	16%	23%
IP protection	19%	42	14%	42	22%	26%
Responsiveness	40%	43	23%	44	21%	18%
Reliability of transportation route/ predictability of travel time	34%	47	16%	44	12%	17%
Rule of law/return of goods/ contract enforcement issues	21%	42	19%	43	9%	12%
Tax issues	23%	40	23%	39	7%	14%
Supplier suddenly closes down	20%	44	26%	43	10%	11%

However, even with this focus on cost reduction, Canadian manufacturers may be missing an opportunity. Twenty-two percent of global manufacturers have entered into relationships with suppliers whereby the supplier pays for and owns the tooling, but the manufacturer provides guarantees of business, such as minimum orders. In comparison, 9 percent of Canadian manufacturers are taking advantage of the potential cost savings that come with such a supplier relationship. Canadian manufacturers are also less willing to take on the related quality risks and issues over intellectual property that may come with entering into a partnership like this, but clearly it is a direction that global manufacturers are taking.

Approach adopted towards tooling ownership for supplier production of key parts

Managing risk the "Canadian" way

Are Canadian manufacturers missing opportunities?

Canadian manufacturers appear to be more risk averse and focus on risk elements in their supply chain strategy more frequently (41 percent review supply chain risk and 43 percent review supplier risk every 1 to 6 months) than they do their overall supply chain strategy (25 percent review it every 1 to 6 months and 30 percent review it every 1 to 2 years).

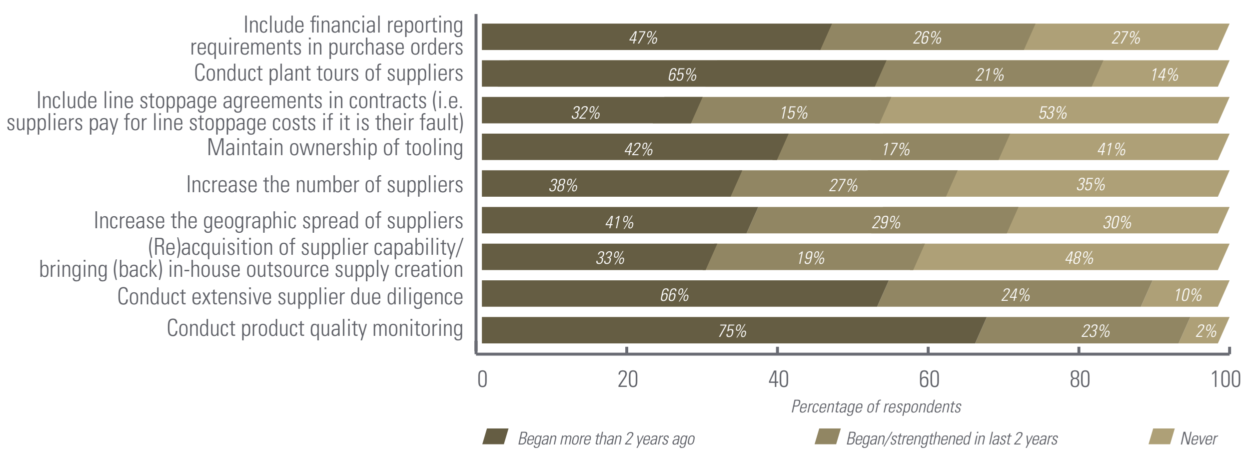
When perceived risk is such a predominant issue, the review of their overall strategy on a more frequent basis is not as necessary because they are considering the risk more frequently and how it affects them on a day-to-day basis. However, by taking a shorter-term view and not examining their overall supply chain strategy more frequently, Canadian manufacturers may be missing opportunities.

When it comes to the practices they use to manage risk in their supply chains, both Canadian and global manufacturers have begun or have increased their focus on specific areas, most notably supplier financial risk:

- 73 percent include financial reporting requirements in purchase orders (compared to 80 percent globally)
- 86 percent conduct plant tours of suppliers (compared to 94 percent globally)
- 90 percent conduct extensive supplier due diligence (compared to 89 percent globally)
- 98 percent conduct product quality monitoring (compared to 94 percent globally).

Engagement in supplier risk management practices

Canada



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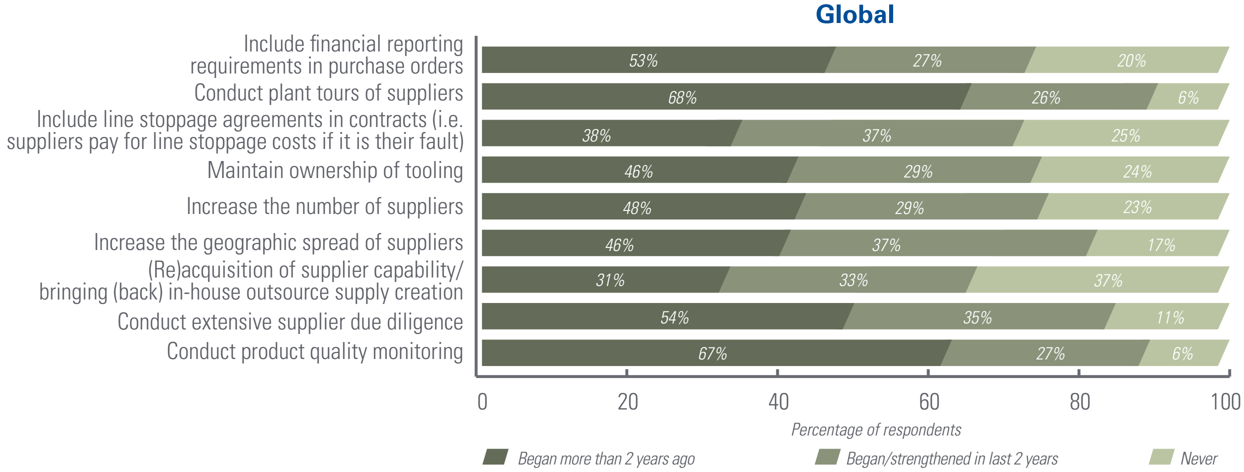
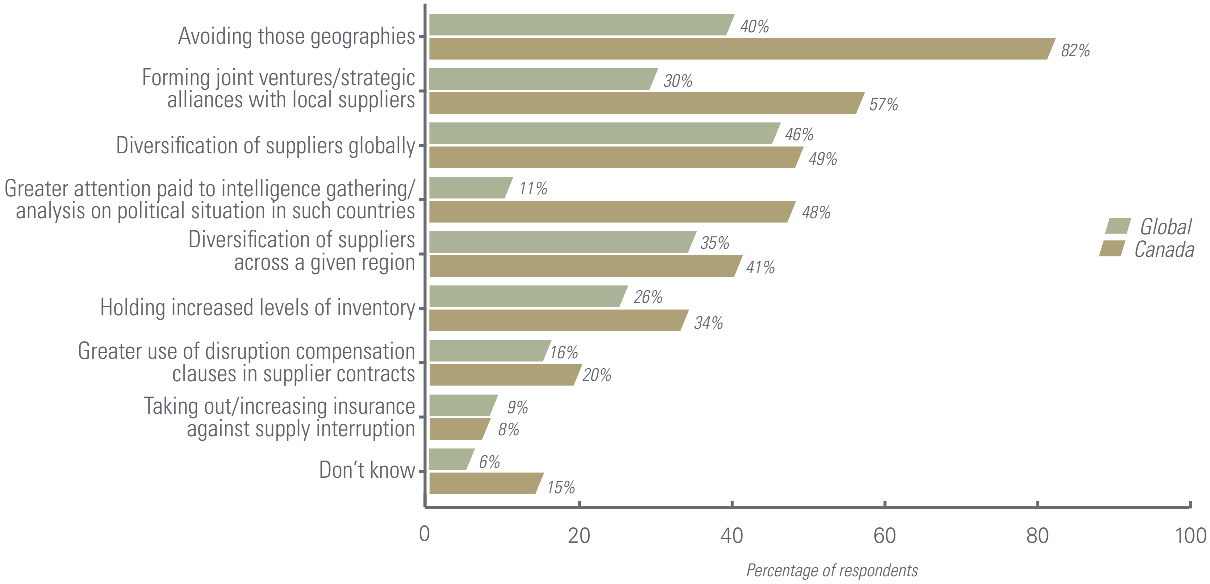


Where Canadian manufacturers differ from their global counterparts is in the practice of including line stoppage agreements in contracts, which only 47 percent have begun to do, compared with 75 percent of global manufacturers.

When addressing methods of mitigating risk of political or regulatory volatility in supplier locations, the survey suggests that most often, Canadian manufacturers prefer to avoid the geographies altogether (82 percent), compared to global manufacturers (40 percent), rather than considering strategies to help them manage the risks, such as forming joint ventures or strategic alliances (57 percent), or diversifying their suppliers globally (49 percent). Where Canada differs in a positive way from global manufacturers is in trying to understand the situation, since 48 percent say they pay greater attention to studying and analyzing the political situation, compared to only 11 percent globally. But the high level of risk avoidance may mean that Canadian manufacturers are again passing up on opportunities to enter these often lower-cost jurisdictions.

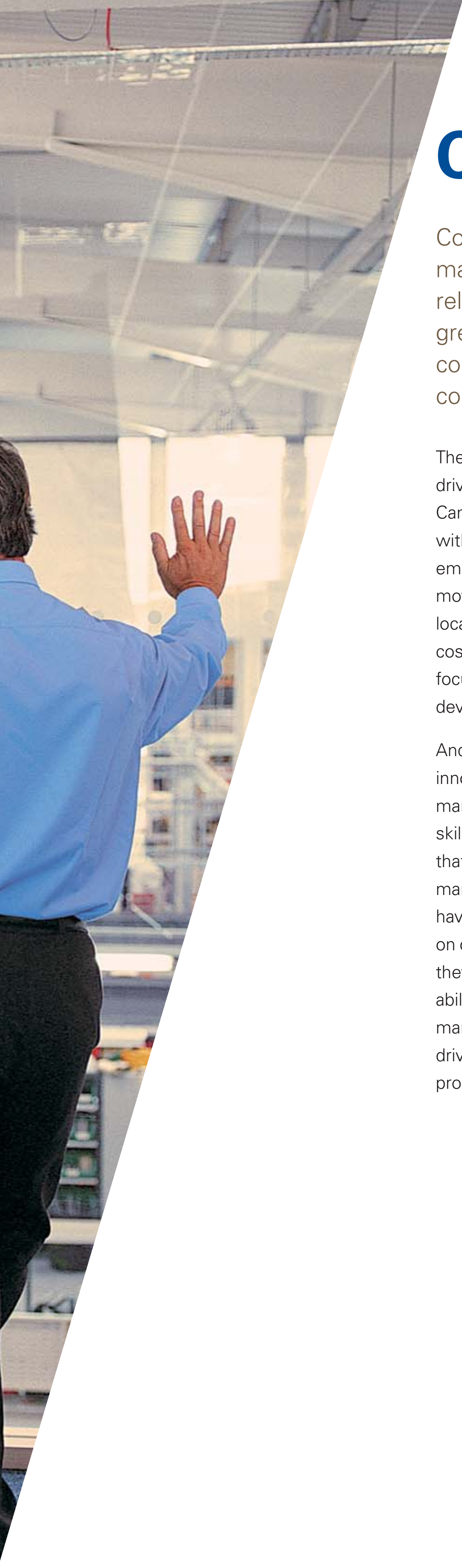
Methods of mitigating the risk of political/regulatory volatility



The global transport of goods: an opportunity for competitive advantage

Managing the risks surrounding the transport of goods across borders is increasingly becoming a critical element of global sourcing. Shipping goods cross-border is not a simple matter, as new bilateral and multilateral trade agreements are making international trade regulations increasingly complex.

In many countries, the trade compliance burden has shifted from customs authorities to importers and exporters, requiring informed and voluntary compliance. Export regulations are often inadvertently revoked, compounding these issues are security measures put in place to ensure the safe transfer of goods across borders. Often, these new security initiatives not only help protect products in transit along various points of the supply chain, but also expedite their movement to clients, resulting in fewer delays and better customer service, creating a key competitive advantage.



Conclusion

Cost and risk are the standout concerns among Canadian manufacturers. So is a desire to have long-standing, trusting relationships with global suppliers to help maintain quality and greater control over processes. Canadians are also starting to consider outsourcing aspects of their supply chains to help reduce costs and mitigate risks.

The drive to source at a lower cost is being driven by the globalization of industry. Canadian manufacturers need to compete with low cost labour and are looking to emerging markets such as China and India, moving away from higher-cost suppliers locally and in the US. But this focus on cost cannot exist without a corresponding focus on innovation, R&D, and product development.

And this is where we can compete—innovation and knowledge. Canadian manufacturers have access to not only skilled labour within our borders, but labour that can bring more innovation to a manufacturing process. While Canadians have until now been more narrowly focused on costs and risks in their supply chain, they have the opportunity to look to our ability to innovate; to make existing manufacturing processes more efficient, driving costs down; or to improve existing products and increase demand.

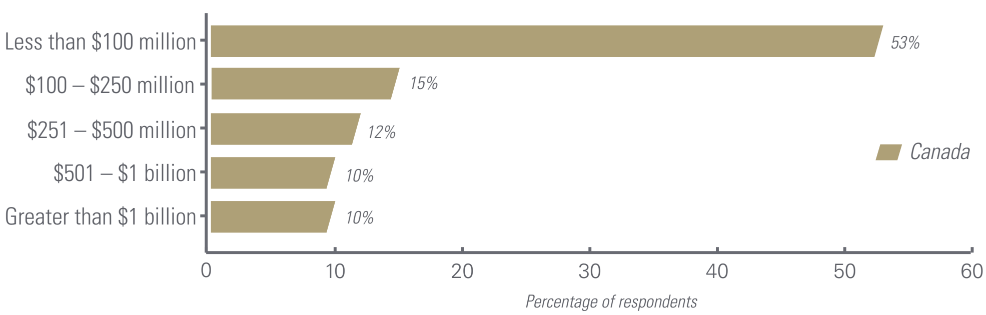
The long-term approach taken by more global manufacturers through investment in R&D should also not be overlooked. If Canadian manufacturers do not continue to invest in R&D, they run the risk of not only losing out on tax incentives and cost savings that their global competitors are exploiting, but also falling behind and continually playing catch-up with these global players.

About the survey

A total of 81 senior Canadian manufacturing executives participated in the survey. Respondents were drawn from the transportation, industrial machinery and equipment, automotive, chemicals, and aerospace & defence sectors, and 79 percent were C-suite executives or above.

Half were headquartered in Ontario, 18 percent in Quebec, 15 percent in British Columbia, and 9 percent in Alberta, with the remainder coming from the other provinces. Slightly more than half of the respondents are manufacturers with revenues less than $100 million and nearly one-fifth have more than $500 million in revenues.

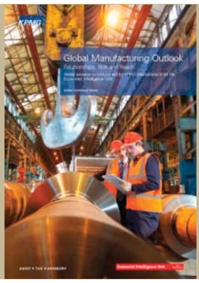
Annual revenues



Industry insights

Providing new information and perspectives related to trends, issues, and opportunities is a vital part of our role as advisers. At KPMG, we share knowledge with our clients through on-going communications, research-based publications, and professional development seminars.

Some recent publications include:



Competitive Alternatives: KPMG's Guide to International Business Location 2010

Competitive Alternatives 2010 measures the combined impact of 26 significant business cost components that are most likely to vary by location. The study also compares data on a variety of non-cost competitiveness factors. The study examines 17 industry operations in 10 countries: Australia, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the United Kingdom, and the United States.

Global Manufacturing Outlook

The world's leading industrial manufacturers are looking at a re-design of their supply chain to weather an economic climate where various forms of risk have become the norm, according to this KPMG International survey.

Standard Costing: Insights from Leading Companies

The current economic crisis has created significant cost pressures on businesses, which, coupled with foreign exchange, raw material, and commodity price volatility, has increased the focus on the appropriateness, application, and use of standard costs. This report, based on a global survey, is designed to highlight the current trends, issues, and needs around diligent standard costing.

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