

Is it time to repurpose your manufacturing business?

Reports of the imminent death of Canada's manufacturing sector are grossly exaggerated

by Peter Campbell

With all of the wailing and gnashing of teeth about the appreciating Canadian dollar, competition from low-cost manufacturers in the Pacific Rim, rising business costs and regulations and taxes, skilled labour shortages and extra border security costs and delays, it would appear that Canada's manufacturing sector is heading fast down the slippery slope.

But things are not always as they appear.

In January, the TD Bank Financial Group reported that shipments in the manufacturing sector increased by 2.3 per cent in November 2006 – the biggest monthly gain since August of the previous year. And, according to CIBC, the number of business bankruptcies in Canada's manufacturing sector actually fell by nearly 10 per cent last year.

It seems that we are not seeing the demise of manufacturing in Canada, but rather, a dramatic shift. The sector is “repurposing” to meet new challenges and demands. For example, to add value to the end product, one of our manufacturing clients that produced tool and dies for metal stamping is now also doing the stamping. Some clients are shifting from traditional products to specialized, technologically-advanced goods and are successfully competing against low-cost competitors producing commodity-type goods. We have other clients that have identified new global markets to expand the reach of their products.

As the sector experiences ongoing pressures, more and more manufacturers are stepping back and looking at the bigger picture to see where and how they fit.

For long-time manufacturers that have produced the same or similar prod-

ucts for the same or similar customer base for many years, the question is: “how do we start the process of determining the best fit for us going forward?”

To decide where you should go in the future, it's best to go back to the beginning.

If you haven't done so lately, it's time to dust off your business plan and take another hard look at it. You need to know if your plan is working well today and if it's likely to be working well two and three and five years down the road.

Review your achievements and failures

Begin by reviewing your successes and failures over the past year to determine what worked well and what didn't.

Evaluate your strengths, weaknesses, opportunities and threats

Next, conduct a SWOT (strengths weaknesses, opportunities, threats) analysis. This is a valuable strategic exercise that produces a framework for reviewing business strategy and direction. It's helpful to involve your management team, board of directors or board of advisors to bring diverse perspectives, objective assessments of ideas – and sometimes encouragement to move in exciting new directions.

Has your SWOT analysis revealed aspects of the business that you can improve? Or revealed that you are no longer competitive in your existing niche? Can you utilize other strengths to develop new opportunities? From this analysis you have a foundation for creating an action plan to leverage your strengths, minimize weaknesses, optimize opportunities and counter threats.

What is the purpose of the business?

But before launching this planning exercise, you need to answer a key question: “What business are we in?”

With the insights provided by the SWOT analysis, you should be able to define the business you are in – or would like to be in. What do your products do for your customers? What don't your products do? What should your products do for your customers in the future that they don't do now? How should your products contribute to the success of your business?

Consider that manufacturing is not just about developing products, it is about delivering value to customers. Consider where you can add value in each area of your business such as: research, design, engineering, quality control, distribution or service.

What's the market potential?

When it comes to testing new ideas, you need to analyze the market potential for your products and how you plan to achieve success in that market.

Your responses should provide you with a good indication of who will purchase your new or improved goods, how these customers will find out about your company and why they will choose your products over those of competitors.

How should we adjust operations?

You need to figure out what adjustments you would have to make to your existing operations to accommodate any changes you wish to make to your business strategy.

Will this be profitable?

You need to determine whether or not your ideas for repurposing your business are economically realistic. To arrive at this answer, prepare a forecasted income statement, cash flow projection and balance sheet. Do the figures make sense? Ask your company accountant to help you test the reasonableness of your assumptions. Have you accurately reflected the full costs of operations? Are you being realistic or too optimistic?

It's at this point that your ideas for new or improved strategies, markets, products and sales will – or won't – reveal a repurposed business that is likely to be profitable.

While reducing costs and improving efficiencies continue to be smart practices for any manufacturer, the global marketplace is undergoing a fundamental shift that is far-reaching and long-term. Even if you export principally to the US, your market today is the world. Lowering costs and enhancing efficiencies will only go so far in helping Canadian manufacturers to succeed in this vastly different arena. As the nature of manufacturing transforms, adaptability will determine future success.

Time to break out the business plan and figure out where your company fits in the new scheme of things.

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