Manufacturing & Distribution

Canadian manufacturers face reshoring challenges

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After several difficult, gloomy years, Canadian manufacturers are once again feeling upbeat about their growth prospects. Revenue and profits are expected to rise, fuelling plans to expand workforces and invest in new technology and equipment. Manufacturers are focusing their investments on domestic operations, opting to keep—or bring—production home. But will labour shortages bring these reshoring efforts to a grinding halt?

Manufacturers' resurgent optimism was on clear display in the Canadian Manufacturers & Exporters *2014 Management Issues Survey (MIS)*, sponsored in part by BDO. A huge majority (83%) of the 803 survey participants forecast revenues to rise over the next three years, and more than three-quarters expect profits to rise over the same period.

For the most part, this growth is expected to result from rising demand in the Canadian and U.S. markets. Two-thirds of respondents expect domestic sales to rise, and more than 60% anticipate U.S. sales to increase.

Canada's manufacturers are making domestic expansion the priority

To meet this rising demand, respondents plan to make sizeable investments in their businesses. Nearly two-thirds plan to increase spending on new machinery and equipment and over half say they'll spend more on facilities. The majority of surveyed firms also say they plan to expand their Canadian workforce over the next three years, with some anticipating workforce growth of over 10%.

This attitude is consistent with the reshoring trend that we and other industry watchers have observed in the sector. Rising labour costs in China and increasing competition for at-capacity manufacturing plants are starting to offset the economic upside of producing goods in that market. Supply chains managed to razor-thin precision are shortening lead times and rising transportation costs are impacting profitability. A firm's proximity to its customers is once again becoming a strategic asset and competitive advantage.

With the domestic and U.S. markets seen as the main source of growth over the next few years, it's not surprising that Canadian manufacturers are choosing to focus on their operations close to home. Doing so enables them to avoid having to find new overseas suppliers, reduces costs of getting goods to market and better positions them to meet customers' shorter lead times.

As they set their sights on renewed growth, Canadian manufacturers face a key challenge: finding the people they need

More than half (58%) of MIS respondents said that finding the people they need is among their most pressing business challenges—and 56% say they're already facing labour and skill shortages. The talent crunch isn't confined to one particular area, either. Nearly half (48%) of the MIS respondents said it's already difficult to find skilled production workers, and one-third (34%) said they're finding it hard to find the scientists, engineers and technicians they need.

Manufacturers don't see the situation changing much in the years to come. In fact, they expect to face new challenges, as management and administration staff also become harder to find. This is especially worrisome because manufacturers see the shortages affecting areas vital to their success. Should they be unable to overcome their talent shortage challenges, their growth ambitions could suffer. Nearly half already feel labour shortages are hindering their progress, and the impact could be worse down the road: 16% of respondents say they'd have to consider closing facilities or passing on opportunities. There's a risk that Canadian manufacturing's reshoring efforts could come to a resounding halt before they've even begun.

Encouragingly, Canadian manufacturers are taking action in the face of these stubborn labour challenges. More than half of survey respondents are searching for operational efficiencies to offset the impact of labour shortages, and forty percent are investing in automation to offset their workforce challenges. They are also planning to increase their spending on research and development, looking for innovations that can push their businesses forward.

In truth, Canada's manufacturers have little choice but to wring out every efficiency they can find and invest in automation to make up for unavailable workers. Investing capital to make their operations more efficient is speeding up the process of change and modernization and the upside is accelerated growth.

These investments need to be made—and they will pay valuable dividends for years to come. Process improvements will help companies eliminate waste, inefficiency and unnecessary costs while streamlining workflows. Robotics and other technology can enable manufacturers to boost output, improve quality and achieve the kind of flexibility that allows them to quickly anticipate and respond to changing consumer and market demands. Research and development spending can help improve on existing products and processes—or uncover exciting, disruptive innovations that change industries and create unexpected opportunities.

Canada's manufacturers can achieve their growth ambitions, but it will take creative thinking and focused investment to overcome the labour shortages that trouble the industry. Improving operational efficiency, adopting new technologies and pursuing innovations will help companies become more productive and competitive—and help keep more production at home.

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