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CHANGING EXPECTATIONS FOR MANUFACTURING LEADERSHIP: A RETROSPECTIVE LOOK AT CANADIAN MANUFACTURING IN 2016

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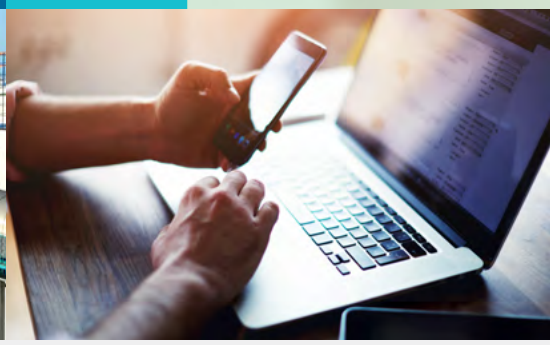
SUMMARY



According to the 2016 Manufacturers' Outlook Report[1], Canadian manufacturers reported optimism about the current state of manufacturing, despite the uninspiring short-term growth forecasts for the national economy. The industry report, which is produced annually by PLANT magazine, a leading publication advancing Canadian manufacturing, in partnership with Grant Thornton LLP and SYSPRO Canada, provides industry insight into the beliefs and practices of Canadian manufacturing leaders across the country.

This eBook provides an overview of how Canadian manufacturers can build an integrated strategy to boost manufacturing growth. It is divided into three key sections:

- **A BRIEF OVERVIEW AS TO WHY CANADIAN MANUFACTURERS ARE OPTIMISTIC ABOUT GROWTH POTENTIAL IN MANUFACTURING**
- **KEY BENEFITS, CHALLENGES, AND CONSIDERATIONS FOR CANADIAN**
- **A FIVE-STEP STRATEGY TO FACILITATE LONG-TERM, SUSTAINABLE, AND STRATEGIC GROWTH**

[1] http://www.plant.ca/wp-content/uploads/2015/12/outlook-2016.pdf

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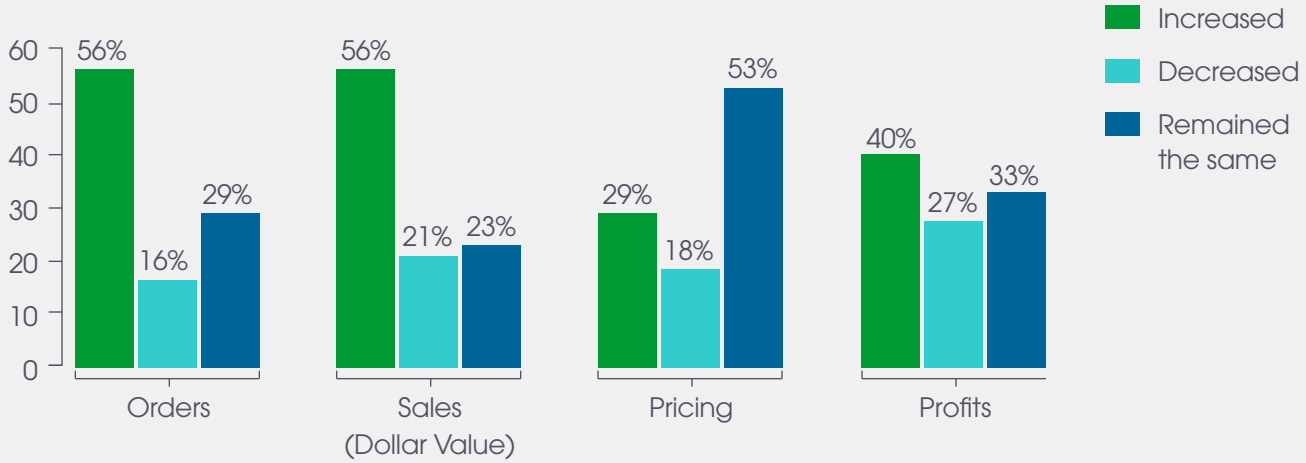
A NOD TO OPTIMISM

The 2016 Manufacturers' Outlook Report surveyed nearly 365 manufacturing executives about their sense of optimism about the current and near future state of manufacturing, and found that:

- 57 percent of respondents described themselves as "cautiously optimistic"
- 32 percent of respondents described themselves as optimistic about the state
- 10 percent of respondents were not optimistic about the near future state

Business growth



The majority of the respondents' optimism is driven by the belief that their orders and profits will increase without an increase in pricing.

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WHY ARE CANADIAN MANUFACTURERS OPTIMISTIC ABOUT THE FUTURE?

Canadian manufacturers are optimistic about the future for a host of reasons, including:

Strengthened business sectors: Certain sectors in the Canadian economy are performing very well. The automotive industry, in particular, has seen tremendous growth with plant expansions and re-tooling offerings enhancing the depth of the sector. Sales levels have increased significantly on an overall basis and, based on the numbers towards the end of 2015, the automotive industry was the largest export sector in Canada—a feat that had not been achieved since 2007.

Shifted exchange rates: While the weakened Canadian dollar presents a challenge to manufacturers who import equipment and products, Canadian manufacturers are net exporters and, as a result, continue to benefit from the fluctuating exchange rate.

Reinforced and familiar U.S. market: The U.S. economy is forecast to grow approximately 2.6 percent into next year, which will be the country's highest annual growth rate since 2006. The re-emergence of this market, greater purchasing power by American consumers, and the reality that U.S. and Canadian consumers have similar purchasing habits, all provide Canadian manufacturers with a considerable opportunity to capitalize on the strength of its neighbor's economy. Additionally, the U.S. market is generally a more accessible and culturally familiar business environment for Canadians to do business with.

Increased global markets: In addition to the opportunities within North America, Canadian manufacturers must also consider expanding beyond the U.S., in order to capitalize on favorable trade agreements. Europe, for example, has experienced recent financial challenges; nonetheless, the growth of the European economy is projected at 1.6 percent—a higher rate than compared to the contraction of their economy. In addition, countries like India and China continue to expand at a fairly rapid and vigorous rate.

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CHALLENGES IN THE MIDST OF OPPORTUNITY

Despite these positive economic factors, there are several uncertainties that keep Canadian manufacturing leaders awake at night. On-going concerns include:

An uncertain global economy: The world economy continues to improve at a rate of 3 percent year-over-year thanks to the on-going growth of emerging markets. However, the global growth rate is lower than what economists would expect during an economic expansion phase. Furthermore, as European and Middle Eastern economies maintain a level of uncertainty in the near future, Canadian manufacturers are wary of the potential challenges that may lay ahead.

A lukewarm Canadian economy: In Canada, manufacturing growth has been dampened by the economic downturn in the energy sector. Low oil prices have created uncertainty across the country, particularly in Alberta. As a result, manufacturers have experienced a decrease in machinery orders and shipments of more than 40 percent. Additionally, the Bank of Canada shifted its original forecast from 2.3 percent down to 2 percent.

A declining stock market: As a result of the downturn of the energy sector, the Canadian stock market has experienced a steady decline, adding to the growing concern amongst many manufacturers about the future potential of the Canadian economy.

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KEY PLANNING CONSIDERATIONS FOR GROWTH

In order to turn optimism into practice, Canadian manufacturers should approach their plans for growth with caution. Here are some key considerations business leaders should take into account prior to developing a sustainable, long-term growth strategy:

Align culture: It is not enough for Canadian manufacturers to simply "show up" in markets around the world—identifying a comprehensive strategic and execution focus when entering new markets is critical for success. Manufacturing leaders must educate themselves on ways to conduct business in new markets, including being mindful of the practices and laws in these markets, as it relates to Intellectual Property (IP). Specifically, manufacturers must practice due diligence and perform adequate research when it comes to optimal foreign business practices, regulations and compliance, tariffs and taxes, currency issues, supply chain and distribution channels, and exit strategies.

Implement strong leadership and engagement: Driving sustainable growth needs to be embraced as a fundamental business principle from the top-down—"top floor" to shop floor. Manufacturing leaders must hire the right talent and establish the appropriate business processes to effectively scale for growth. While many organizations have expressed challenges when it comes to hiring the right talent, it is an incredibly important, strategic area that requires dedicated attention.

Target customer focus: In an increasingly competitive business environment, Canadian manufacturers must fully understand their current and prospective customers' needs. Fortunately, Canadian manufacturers have a great reputation for delivering quality products. By zeroing in on the high-quality products that provide the most value to customers, organizations are well-positioned to place themselves ahead of the competition.

Invest in supply chain management: In order to be successful, manufacturing leaders must better integrate and manage their supply chain partnerships—with the goal of improving response times, delivery performance, and overall supply and demand flexibility. This is especially important as manufacturers who are looking to develop a presence in emerging markets must compete with a wide variety of well-established local and regional suppliers.

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PLANNING AHEAD FOR LONG-TERM GROWTH

While the level of optimism amongst Canadian manufacturing executives is rightfully high, the industry as a whole, still predominantly operates with a short-term mindset. The "tyranny of the immediate" plagues even the most diligent manufacturers and undermines their ability to facilitate change in their business, for manufacturing excellence. As a result, even those businesses that are willing to commit the time and resources to expand internationally, can sometimes fail because they cannot see past present operating circumstances. While a short-term mindset may have made sense during the economic downturn, the time is prime to build a longer-term strategy, focused on driving business growth.

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PLANNING AHEAD FOR LONG-TERM GROWTH

Business leaders should consider the following five strategic planning steps to strengthen their global reach—in both the short and long-term future. They include:

1. Identify the "white space" for business opportunity

In order to drive long-term business growth, Canadian manufacturers must extend their reach beyond North America. Building a viable expansion strategy begins with identifying the "white space" for business opportunity in geographic regions where Canadian companies can effectively compete. This means finding a unique opportunity for conducting business, including emerging global markets, where the middle class is growing and enhancing their purchasing power. Successful expansion planning must include considerations for how the business culture, taxes and tariffs, currencies, and language will all be managed. Such due diligence is especially important given that manufacturing businesses may not elect to set up their base operations in that country of business.

Questions to consider:

- What is the unique value that your product and/or service is delivering to the market?
- How do customers use your product or similar products in the region?
- How can you best compete against current competition?
- How do customers perceive your brand and company?
- Do you have the right resources in place to support a holistic expansion strategy?

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2. Reset expectations and avoid assumptions

Part of having a long-term focus means looking towards expanding business operations through a realistic, global lens. This includes resetting expectations and avoiding assumptions about different market segments. While a return on investment, financial payback, and increased market share are all fairly easy Key Performance Indicators (KPI's) to measure within a North American context, this data is often neither readily available nor clear enough in emerging markets. In order to be successful, business leaders must create a set of achievable evaluation criteria, with reasonable expectations. Resetting expectations within this context will help ensure that Canadian manufacturers are not setting themselves up for failure. Organizations must also be very mindful as to what their products, services and pricing will look like before simply launching them "*as-is*" into new markets.

Questions to consider:

- What are realistic expectations and timelines for conducting business in a new market?
- What are the tangible and intangible Key Performance Indicators (KPI's) for expansion success?
- What type of feedback loop is required to build flexible and agile processes for success?
- How can you successfully monitor the progress of your growth strategy?

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3. Perform due diligence when targeting new markets

Manufacturers that have a clear understanding of their target audience in existing markets and potential new markets, are well-positioned to successfully drive growth. In addition to understanding the business culture of a specific new market, companies must also consider buyer behavior, retail or distributor channels, as well as, the market's bias towards Canadian manufacturers. A robust due diligence process will facilitate a better understanding of the market—and provide organizations with a strong competitive advantage.

Questions to consider:

- What is your ideal customer persona within your target market?
- What is the typical buyer journey?
- What are the geo-political and environmental considerations within the target market?
- Who are the key partners that can help support your growth strategy within the region?

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4. Leverage home team assets

Successful Canadian manufacturers are those who are savvy enough to consult and leverage local and international industry contacts. Consider tapping into the knowledge base of expatriate communities now residing in Canada when strategically approaching emerging markets. Taking into account these "home team assets," manufacturers are better positioned to promote their brand abroad, with a quicker uptake and adoption to lucrative, growing markets.

Questions to consider:

- How can we leverage and apply the knowledge and experiences our existing staff have of the new markets we are looking to expand into?
- Which government and private sector resources are available in the new market? (This includes Chambers of Commerce, government agencies to host events to meet/greet prospective buyers)

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5. Embrace technology and automation to scale productivity

Most manufacturers struggle with improving productivity—a key element to driving business growth. Canadian manufacturers continue to express a desire to invest resources in machinery and equipment, instead of business intelligence and data analytics systems. To put this into context, the 2016 Manufacturers' Outlook Report indicates:

- 49 percent of manufacturing businesses are dependent on the manual collection and analysis of productivity measures
- 63 percent of manufacturing executives do not have the ability to monitor plant operations via mobile technology
- Only 28 percent of manufacturers surveyed are connected to information management systems
- An overwhelming 22 percent of business leaders are not looking at productivity measures, at all

For manufacturers looking to improve productivity and scale for growth, when entering new markets, investing in appropriate technology and systems is no longer a choice—it's a necessity. Centralized business systems such as Enterprise Resource Planning (ERP), that connects the shop floor to the "top floor", are not simply expensive tools but investments in profitable growth.

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Leveraging systems such as Enterprise Resource Planning (ERP) can deliver immediate business benefits including; greater transparency and single source of truth for inventory management; reduced cycle times for proposals, orders and fulfillment; and an improved ability to address complex customer needs more quickly—and with fewer data errors.

Manufacturers are constantly looking for ways to increase productivity, accelerate operational output, and achieve sustainable excellence in manufacturing. Many manufacturing companies struggle with the need to maximize quality and performance—while attempting to minimize costs. Assessing opportunity costs and taking steps to develop different, innovative methodologies is the first step in the journey towards lasting and substantial change.

By automating business processes and establishing greater visibility into the productivity of plant operations, businesses can "connect" the dots in their operations and gain a substantial advantage over their competitors. Connecting the shop floor to the "top floor" with plant data—transmitted in real-time, to senior management, sales teams and then filtered to centralized business systems (such as ERP), enables executive teams to make rapid, better-informed business decisions.

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Without the appropriate automated processes and technology to empower manufacturers to connect their business, manufacturing leaders will miss the valuable insight into the 360-degree view of their business to identify gaps, weaknesses and areas for productivity improvement. Moreover without real-time connectivity and insight into shop floor processes, manufacturing executives are late to understand—and capitalize on—opportunities for growth. The right technology supports the right processes at the right time, and provides manufacturers with the ability to analyze and identify where transaction data is being recorded in multiple systems. This positively impacts reporting and forecasting processes.

Manufacturers should also look for opportunities to reduce data points, workloads and remediation processes. Doing so helps improve accuracy and allows human resources to be allocated to higher value tasks, that are focused on improving business growth.

Additionally, using sophisticated ERP solutions will help initiate standard processes for inventory tracking, information consolidation, and automation. This helps ensure that the right information is delivered to the right person—at the right time.

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There is no "magic bullet" to achieve manufacturing excellence, but innovation can lead to excellence, and can be derived from various parts of an organization. People, processes and technology must all be considered when exploring alternative designs or solutions like ERP, in the pursuit of excellence.

Questions to consider:

- Are your business systems well-integrated for 360-degree reporting?
- Which critical business functions are available for automation, optimization and integration?
- Which areas of the business currently suffer from inflexibility, and potential revenue leakage?
- Which areas of the business are top priorities for improvements from an automated process?
- What systems do you need to put in place to define processes and improvements?
- Who needs what reporting information—and when?

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CONCLUSION

The 2016 Manufacturers' Outlook Report reflects a cautious, yet optimistic view of Canadian manufacturing, as we head into a new year.

Strengthened business sectors such as the automotive industry, shifted exchange rates resulting from a strong U.S. dollar, as well as, an increase in viable, global markets like China—all give rise to a hopeful outlook for the future of manufacturing in Canada.

Yet, despite these positive business factors, Canadian manufacturing leaders face on-going concerns with stability and gaining a competitive advantage in the marketplace. The recent U.S. election and uncertain trade agreements with the U.S., and other foreign markets remain to be determined. A weak Canadian dollar, falling oil prices, and an uncertain global economy and stock market, all impact the mindset of Canadian manufacturers.

In order to establish themselves as sustainable global market leaders, Canadian manufacturers should implement several strategic approaches for success including, identifying the "white space" for unique business opportunities; resetting their expectations and avoiding assumptions about different market segments; performing robust due diligence when targeting new markets; leveraging their home team assets; and embracing innovative technology and automation to scale productivity.

Not falling prey to the 'tyranny of the immediate' is a challenge for many businesses, as the manufacturing industry as a whole, still predominately operates with a short-term mindset.

Developing a sustainable, long-term growth plan is the key Canadian manufacturing leaders to turn their optimism into practice.

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ABOUT SYSPRO

SYSPRO software is an award-winning, best-of-breed Enterprise Resource Planning (ERP) software solution for cost-effective on-premise and cloud-based utilization.

Industry analysts rank SYSPRO software among the finest, best-in-class enterprise resource planning solutions in the world. SYSPRO software's powerful features, simplicity of use, scalability, information visibility, analytic/reporting capabilities, business process and rapid deployment methodology are unmatched in its sector.

SYSPRO, formed in 1978, has earned the trust of thousands of companies globally. SYSPRO's ability to grow with its customers and its adherence to developing technology, based on the needs of customers, is why SYSPRO enjoys one of the highest customer retention rates in the industry.

NEXT STEPS:

If you want to learn how SYSPRO can support your business growth, contact us today at info@ca.syspro.com or +1 (888) 259-6666.