

# 2019 Manufacturers' Outlook Report: Opportunities & Challenges

How Canadian manufacturers can thrive through the tough times predicted ahead



# Canadian Manufacturers Plan for Growth

To better understand the Canadian manufacturing landscape Plant magazine publishes the annual Manufacturing Outlook Report. The 2019 report was prepared by RK Insights based on a survey of 501 senior executives in small, mid-size and large businesses across the Canadian manufacturing industry.

A dynamic transition is taking place in the manufacturing landscape, as the business world adapts to an increasingly interconnected and complex global economy. Just as digital communications have forever changed how consumers and companies connect, the wave of digital transformation now underway in industry is dramatically converting how manufacturers capture, transfer, analyze and use data.

At the same time, Canadian manufacturers are facing less stability in the market, slim margins and rising costs. Quality, productivity and efficiency are always top of mind among operators, and most are now looking for economical ways to maintain a competitive edge in today's fast-paced market.

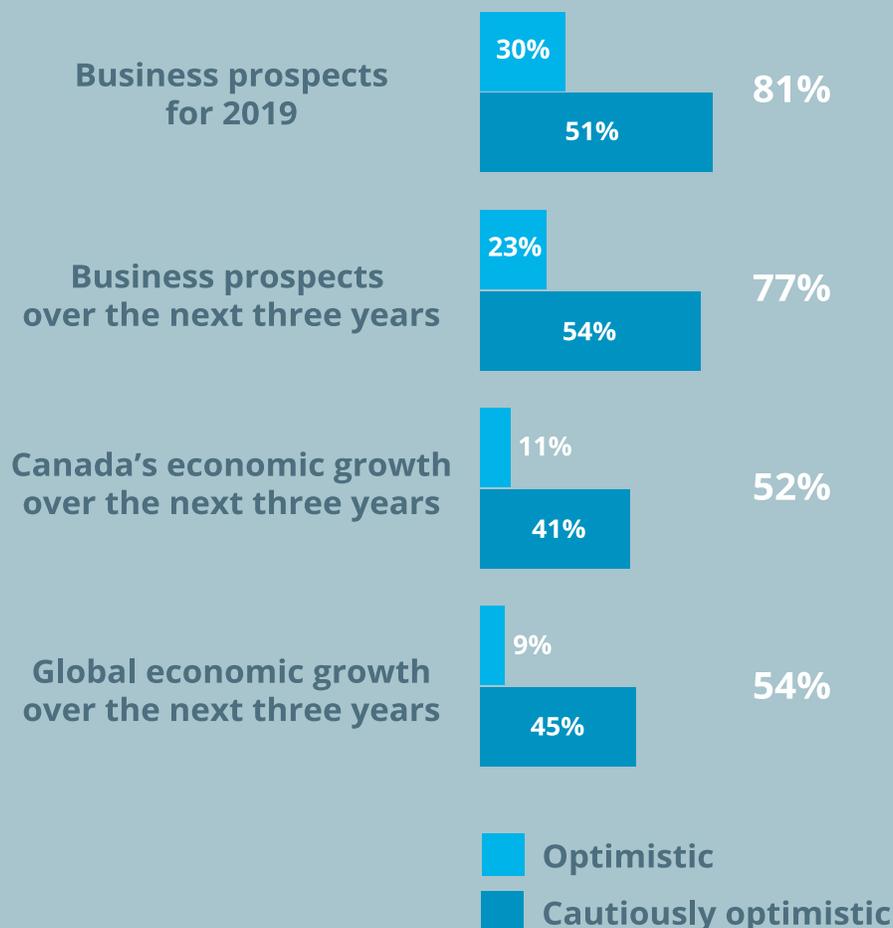
To face these challenges, companies are looking for tools they can use to optimize their business processes and gain a competitive advantage. Companies that have begun to incorporate digitalization in their facilities are already gaining a leading edge by using Internet-connected systems and advanced manufacturing technologies like Artificial Intelligence (AI), Internet of Things (IoT), integrated value-chain management, real-time analytics, and other elements of Industry 4.0. If Canadian manufacturers are to survive and thrive in this economic climate, it's essential that they make investment decisions that will help future-proof their business.



# Canadian Manufacturers are Cautiously Optimistic in 2019

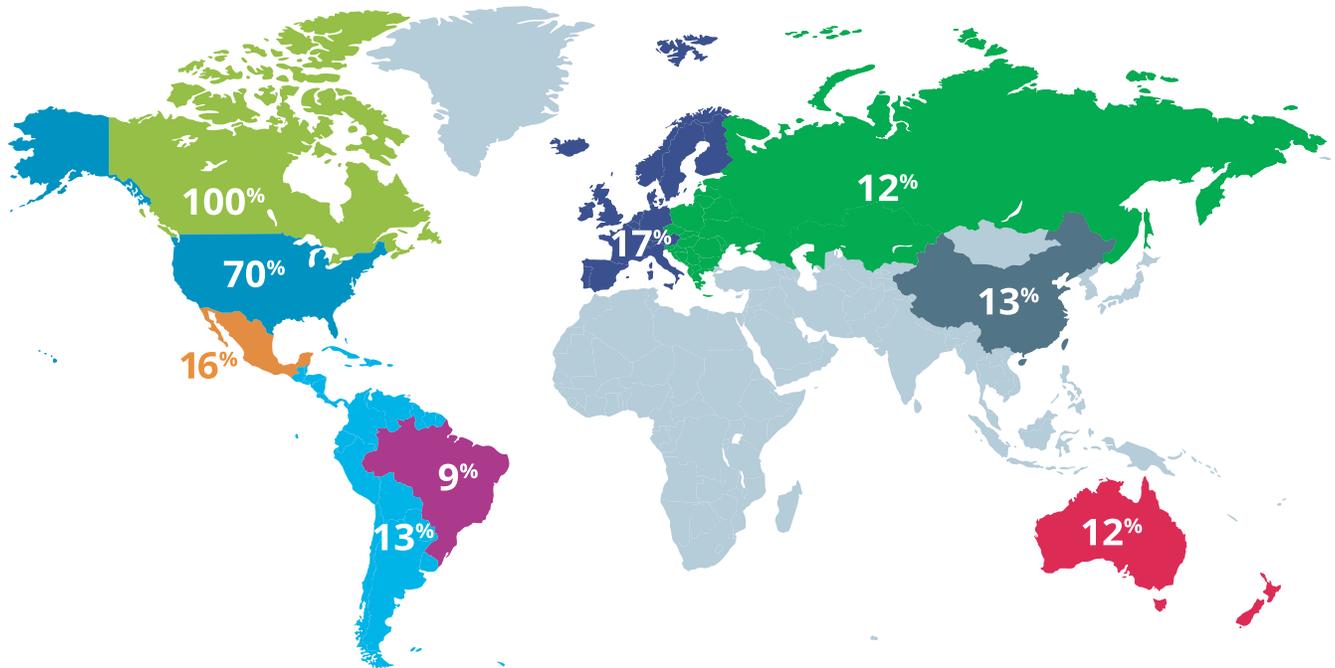
According to the 2019 Manufacturers' Outlook Report, Canadian manufacturers across all sectors are looking forward to greater business opportunities in 2019. In fact, the overwhelming majority of manufacturing executives say they are optimistic or cautiously optimistic about their business prospects this year and over the next three years. This is despite the fact that there is significantly less optimism about global and national growth in the next three years, as operators consider risks such as financial and political volatility.

## How do Canadian manufacturers rate their confidence level for the following?



# The US Continues to be Our Largest Trading Partner

Countries Canadian manufacturers are forecasting revenue from



**Canada 100%** **United States 70%** **Western Europe 17%**  
**Mexico 16%** **Central/South America 13%**  
**China 13%** **Central/Eastern Europe 12%**  
**Australia/New Zealand 12%** **Brazil 9%**

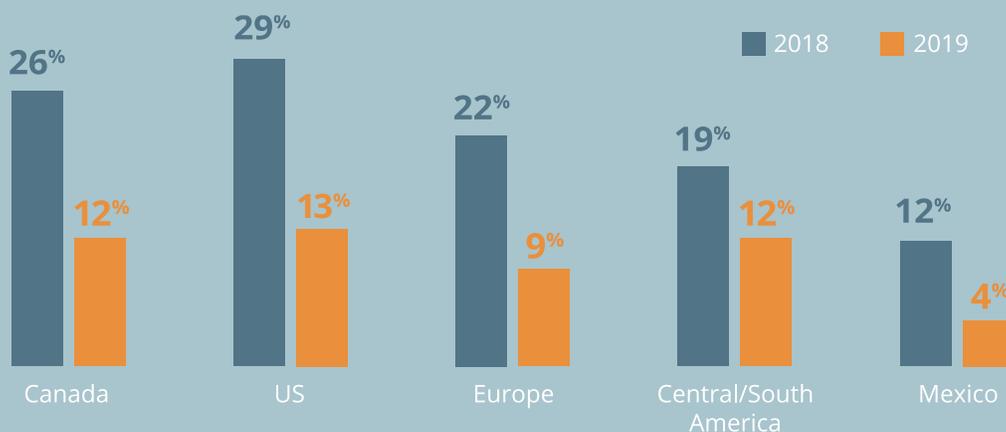


# Growth in International Markets Is Declining

It's no surprise that manufacturers are not targeting expansion into new markets as much as they have in past years. While the U.S. is still our largest trading partner, only 13% of Canadian manufacturers say they are considering entering the U.S. market in 2019. Many manufacturers are concerned that the changes brought about by the Trump administration (such as NAFTA re-negotiations) have created too much uncertainty in the U.S. market.

Interest in entering other international markets has similarly fallen off since 2018, as the value of the Canadian dollar and economic conditions affect export potential. The worldwide economy continues to offer opportunities for well-positioned Canadian manufacturers, especially those who are already established in foreign markets. However, fewer companies are considering embarking on exporting as a growth strategy, and many note that the international market presents its own unique risks.

## Interest in entering new markets has decreased



Percentage of manufacturers surveyed that will enter these markets in the next three years

## Competition is a major constraint to increasing revenue from new markets

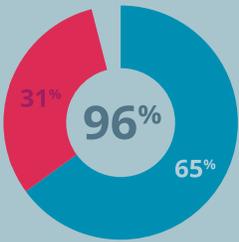


Percentage of manufacturers surveyed that view these as constraints to increasing revenue outside of North America

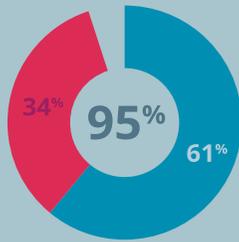
# A World of Increased Risks

As the world becomes increasingly interconnected, 85% of manufacturers say they are concerned or somewhat concerned about cyber-security threats (21% also say they have experienced a cyber-attack in the past year), while 63% worry about technology integration.

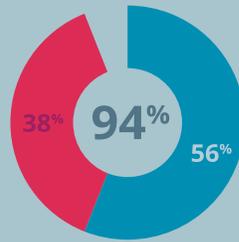
## Major areas of concern



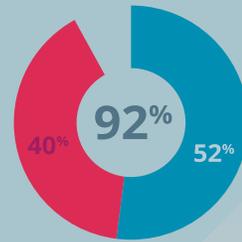
US protectionist policies



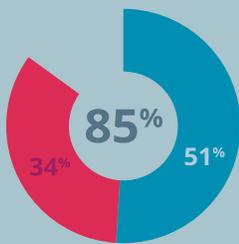
US/Trump administration's impact on nation-to-nation relationships



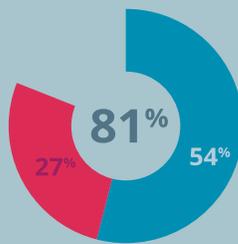
Changes involving NAFTA / Renegotiation of NAFTA



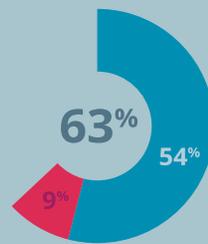
Rising global protectionism



Cybersecurity threats



Cost of climate change measures



Technology integration



Very concerned



Somewhat concerned

# Growth Opportunities

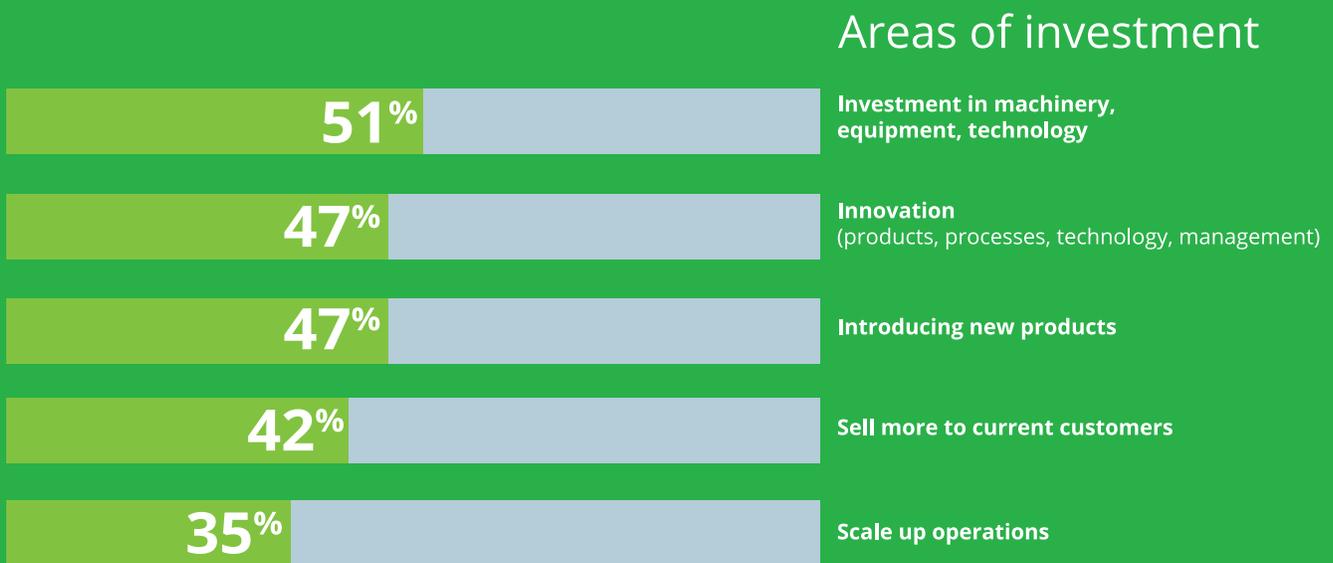
In the past few years forward-thinking companies have recognized a dramatic shift in consumer thinking, as both retailers and end-users demand more input in, and knowledge of, the way in which products are sourced, produced, distributed and sold. That means manufacturers must find measurable ways to build transparency into their operations and provide information in a consumer-friendly way – preferably online – or risk losing consumer trust.

Canadian manufacturers are focusing on several different strategies to maintain competitiveness this year. In fact, manufacturers say improving their internal processes and investing in their facilities and operations will be key in 2019.

In order to build a successful business strategy in this demanding environment and create greater value for customers, it's crucial that manufacturers of all sizes have an effective way of monitoring performance and growth through regular risk assessments. Tools such as connected technology and digitalized processes can identify emerging opportunities, while anticipating and mitigating real-time challenges before they become problems.

Overall, manufacturers expect to increase their investments in machinery, equipment and technology, expansion upgrades, and new facilities by 15% over 2018. As expected, investing in machinery, equipment and technology will be the top growth strategy in 2019, followed by innovation in products, processes, technology and management; introducing new products; selling more to current customers; and scaling up operations. Manufacturers also say they will invest in training, software systems, data analysis systems, and research and development this year.

## Manufacturers are investing in their growth

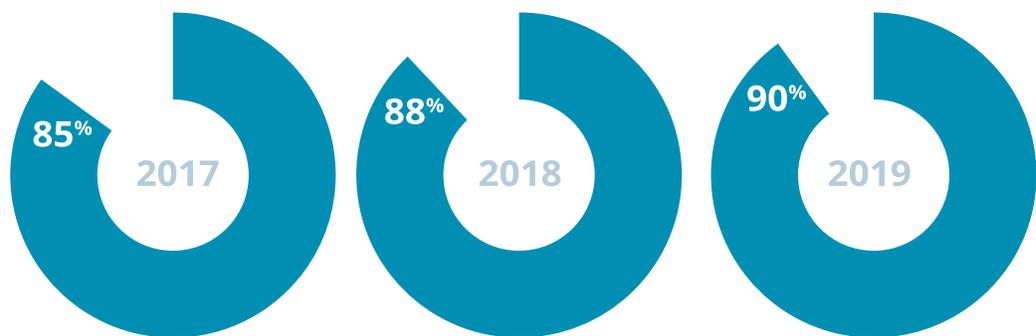


# Investing in Innovation

A full 90% of manufacturers say they plan on investing in innovation this year, up from 88% in 2018 and 85% in 2017. On average businesses plan to spend 3.6% of their revenue on innovation, slightly down from 3.7% of revenue in 2018. Considering the current risk aversion among Canadian manufacturers, it's not surprising that 70% of respondents say they will finance growth with internally-generated cash flow.

## Every year more & more manufacturers recognize the need to spend on innovation

**Any Spend on innovation**



**Average % of revenue spent on innovation**

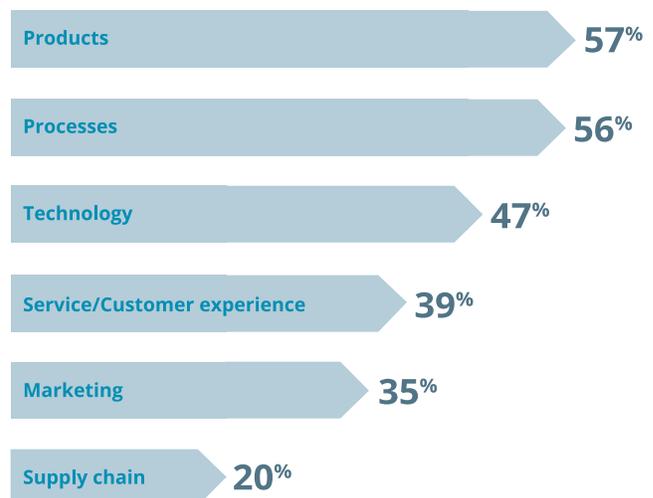
**3.2%**

**3.7%**

**3.6%**

New products, processes & technology are at the forefront of innovation efforts

What are the primary innovation efforts?



# Funding Innovation

With cost-pressures in mind, manufacturers are also increasingly partnering with their suppliers and customers in the private and public sector to share the risk and expense of innovation. In the same way that the federal government's industry supercluster strategy recognizes the benefit of collaborative innovation, savvy manufacturers are now affiliating with their clients, equipment and software companies, universities, research centres and government agencies to work together to develop new applications for emerging technology. In Canada there is a wealth of collaborators ready to work with industry, and manufacturers who are already using partnerships to fuel innovation are clearly reaping the rewards.

## Canadian manufacturers are partnering with their network for innovation

- 54%** Suppliers of equipment, materials, components or software
- 42%** Clients or customers from the private sector
- 30%** Parent, affiliated or subsidiary
- 24%** Universities, colleges or other higher education institutions
- 17%** Clients or customers from the public sector
- 15%** Consultants & commercial laboratories
- 13%** Government, public or private research institutes



## Government funding is underutilized

Only 28% of manufacturers say they are accessing government grants and direct funding for innovation. This may be because many manufacturers say they find applying for government funding to be cumbersome, confusing and slow. Nevertheless, Canadian companies are missing out on funding opportunities. There are a multitude of business financing and advisory services available to manufacturers in Canada, including through regional economic development councils, the Business Development Bank of Canada, and various provincial and federal agencies. It's up to manufacturers to learn how to better leverage the valuable resources available to them.

# Digitalization and Industry 4.0

Where Canadian manufacturers seem to be falling behind is in the implementation of digital processes and data capture. Many manufacturers across all industries still rely on manual processes and data collection, despite the fact that automating data collection through “smart” connected technology can remove inefficiencies and eventually open up new revenue streams.

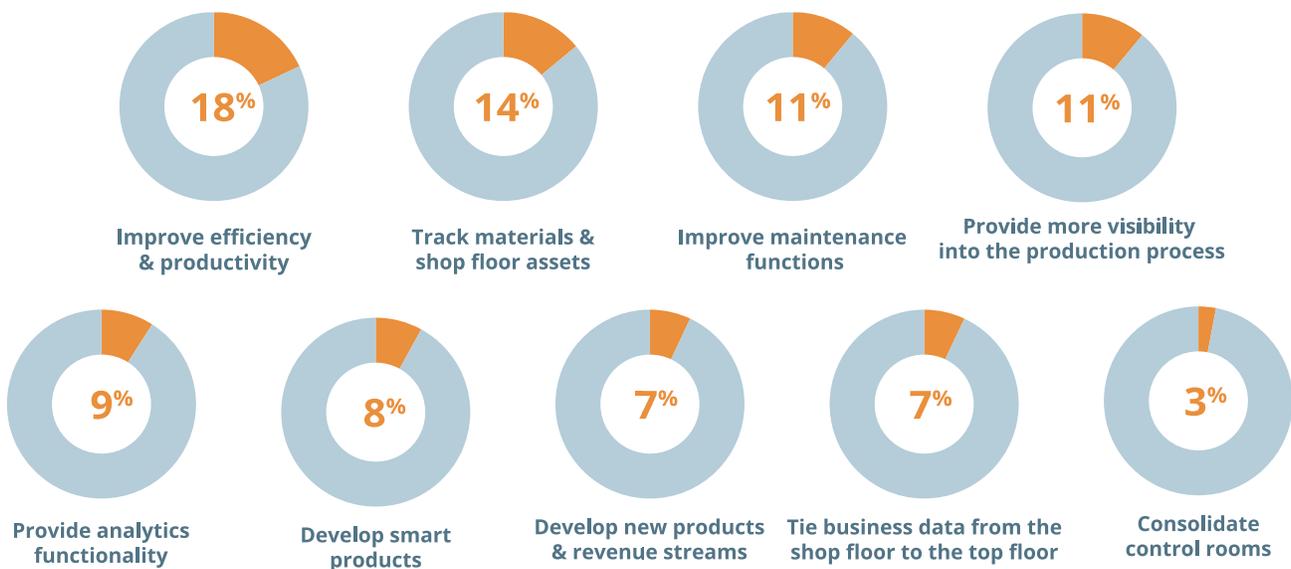
Through the addition of sensors and connector APIs, manufacturers can eventually create a single connected workflow, from design concept, through production to retail. Regardless, only 6% of manufacturers say they currently use IoT technologies in their facilities, while 5% are planning to invest in these technologies within the next 24 months, and 17% say they are now evaluating their use. However, many manufacturers say they are still unsure how IoT technology is applicable to their operations.

Most manufacturers also cite perceived barriers to adopting smart technology, such as the initial cost of investment, uncertainty about how to deploy it properly, concern over cyber-security, and a general lack of knowledge and skill around its use. In other words, the majority of Canadian manufacturers don't know where to start when it comes to digital transformation and connectivity.

While transforming an entire business operation seems overwhelming, manufacturers that have already begun the task say they consider it a journey of incremental process and equipment changes rather than an overnight conversion. In fact, most manufacturers have started with just one connected system or piece of equipment, allowing them to properly monitor and evaluate its performance before making further investments.

## The journey starts with productivity

Businesses that are currently employing digital and connected technology use it in a variety of ways.

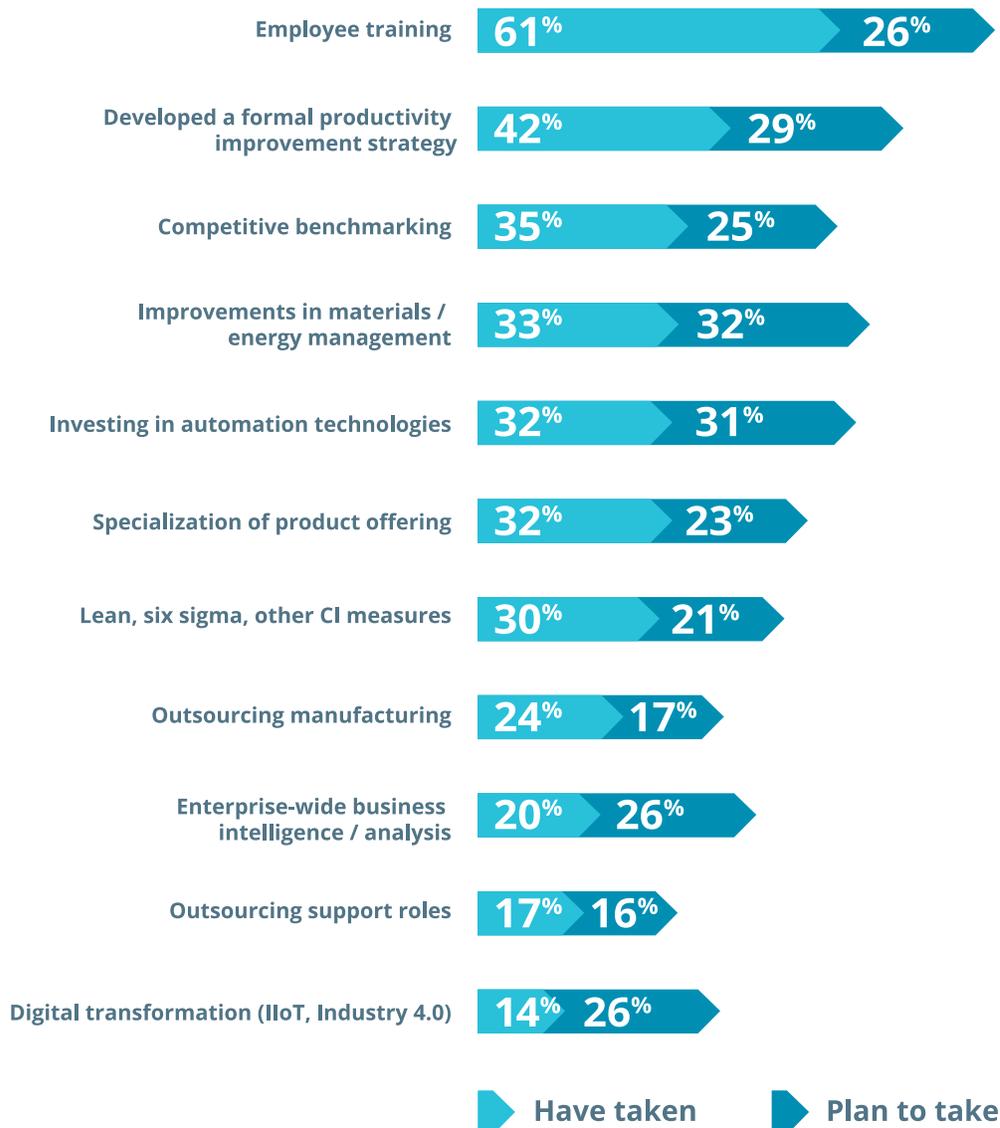


# Gaining a Competitive Edge

Digitally-connected technology is revolutionizing products, processes, and the ability to deliver services to customers. Perhaps most importantly, digitalized systems offer manufacturers the invaluable ability to analyze data, helping them make more informed system and product improvements.

Digital automation is quickly becoming a competitive advantage for Canadian manufacturers. It allows companies to react rapidly to changing consumer demands, and dramatically shorten time to market for new products. Other concepts such as machine learning programs and AI can improve product design and quality, significantly enhance operating efficiencies, and make mass customization possible. Inventory management systems can reduce overhead and allow for just-in-time production. And Enterprise Resource Planning systems can give manufacturers a more holistic overview of their operations, allowing them to better configure processes, technology and resources for peak productivity.

## Top steps to improve productivity



# Summary

So what will it take for Canadian manufacturers to thrive in 2019? It will take good leadership, a willingness to critically evaluate your overall operations, and a strategic plan that ensures you have the partnerships, people and processes in place to succeed in our rapidly-changing market. Companies that focus on continuous improvement through systems and technology will reduce risk and drive added value for customers. They will also be prepared when the next wave of integrated technology shifts the landscape yet again.

## About SYSPRO

SYSPRO is a global, independent provider of industry-built ERP software designed to simplify business complexity for manufacturers and distributors. Focused on delivering optimized performance and complete business visibility, SYSPRO's strengths lie in a simplified approach to technology, expertise in a range of industries, and a commitment to future-proofing customer and partner success.

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