

North American manufacturing rebounds

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We are coming back!

By Sepp Gmeiner

It is not easy to be enthusiastic about our industry today. The U.S. dollar is at par with the Canadian dollar, which makes exporting to the US more difficult, and Canadian manufacturers are not as price competitive as they used to be. Actually, some US manufacturers are starting to gain back some market share in Canada.

Against this gloomy backdrop, there are a number of observations: Mexican manufacturers have lost some of their market share in the U.S. to Asian and other importers and they are facing pricing pressures. However, the Mexican domestic market is growing and better prices are achieved domestically than by exporting to the US. Their factories still rely on their low labor rate and they have not made significant capital investments in them. Only if they modernize and improve their productivity will they have a chance to increase their market share once again.

Gas prices are slowing down globalization. The Wall Street Journal published an article regarding the impact of soaring transportation costs. The transport cost for a 40-foot sea container, from China to the northeastern U.S., was quoted at \$5,300, now, with an increase to \$5,600 next month. This cost has increased threefold since 2000.

Ever increasingly, manufacturers realize that logistics costs are higher than manufacturing labour costs.

Bottom line:

It can pay to come home

Manufacturers are returning to North America. The article also gave the example of Craftmaster Furniture in Thomasville, N.C. The company intended to move 40 percent of its production to China by the end of the year. With the move only half completed, they stopped. The cost savings were almost eradicated by the higher logistics costs and were not cost-effective due to the loss of flexibility from a supply chain extended by 12 weeks due to the long distance.

My observation is, and this is a mere generalization, that Canadian companies are more willing to invest in high-tech equipment. This ability to adopt newer technologies could lead to the productivity leap we need to cover for the currency loss.

See the big picture

In order to regain competitiveness, companies need to do more than just purchasing machines. They need to align all their efforts to their strategy in order to optimize the limited available resources. All departments need to sing from the same song sheet. Not to say that this is the most important, but I would like to focus on the operations department.

Even at the sake of sounding like a broken record, all elements of operations must always be in alignment. Market conditions, economic outlooks and other factors are forever changing. The prevailing strategy needs to be closely monitored for its validity. As the strategy is adjusted, so must



the tactical measures also be adjusted.

For instance, IWF 2008 in Atlanta is approaching. A number of companies are canceling their visits because they have no plans to make any sort of large purchase.

I am not in agreement with this logic. There is quite an advantage to canvassing the show even for small items. There is a multitude of new ideas and small investments that could be found. And for the purchase of larger ticket items, it can give you a head start to gain valuable knowledge for when the economic outlook is more positive.

There are many opportunities for the industry in the future. We all need to adjust. However, there is one option that we should not elect and that is the option to do nothing!

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