

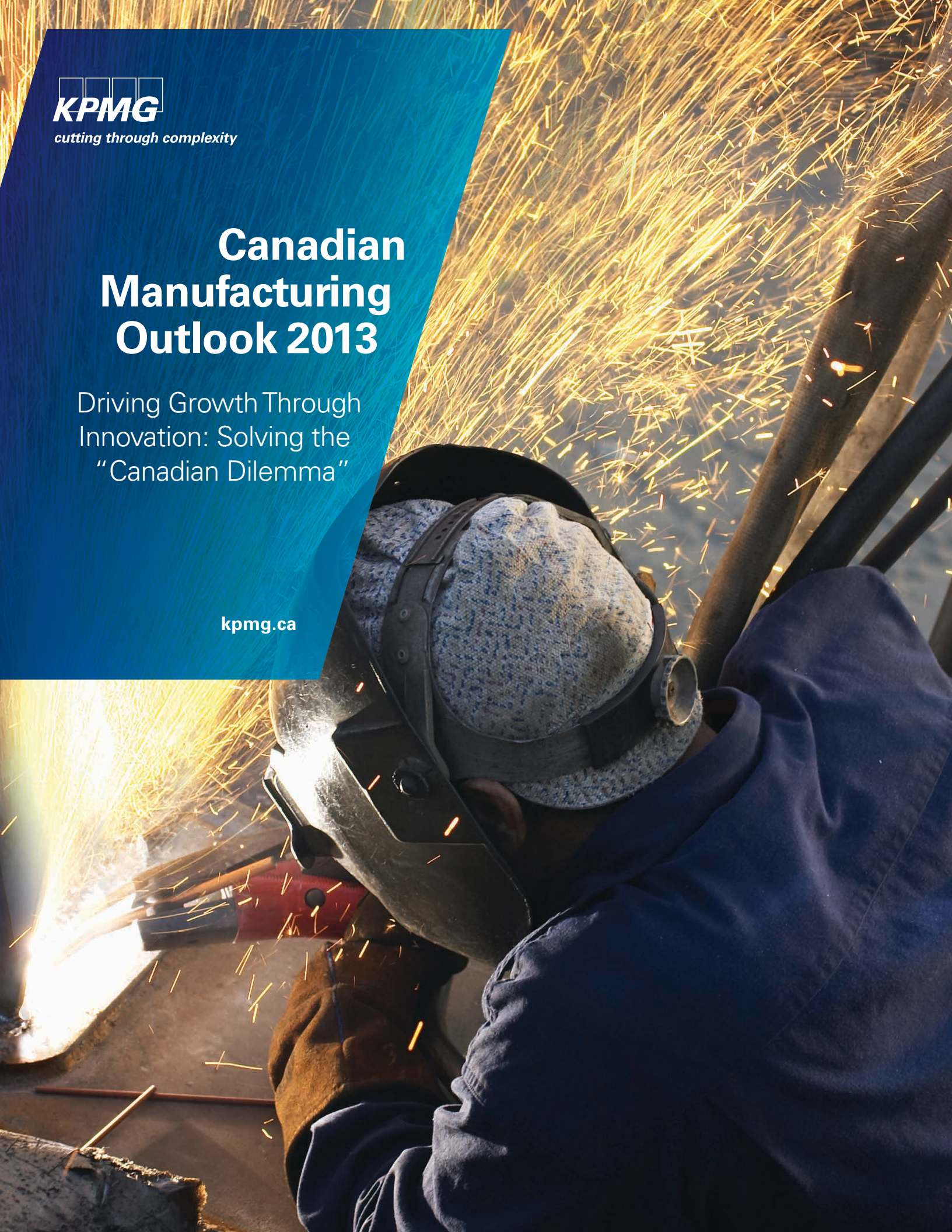


cutting through complexity

Canadian Manufacturing Outlook 2013

Driving Growth Through
Innovation: Solving the
"Canadian Dilemma"

kpmg.ca



Foreword

Canadian manufacturers rely on innovation to be competitive. Along with our country's natural resources including forests, minerals, metals, and energy, Canada is also world-renowned for the technological and process innovations that have made our manufacturing industry so successful and competitive.

Manufacturing companies in Canada know their customers well and understand that innovation within the industry is what drives growth. In an environment of increasing input and labour costs, a strong Canadian dollar, and increased competition from larger global manufacturers, profit margins are continually getting squeezed. This is the "new normal" for manufacturing worldwide.

Canadian manufacturers, however, face an additional challenge. Being smaller companies, financing is a constant struggle. With less diversified sources of financing compared to large, public companies, the mainly privately-owned Canadian manufacturers have the added burden of trying to fund the innovation they rely on in an economic environment that is more risk averse than ever before. It is the "Canadian Dilemma": How do manufacturers continue to invest in the disruptive, game-changing innovation that differentiates them in the market and is their key driver for growth when financing poses such an obstacle?

Many look to Canada's R&D tax credits for relief, but nearly half of the executives in our Canadian Manufacturing Outlook 2013 indicate lack of R&D funding is a major challenge. Over the last two Federal Budgets, the Canadian government has introduced more tax funding in an effort to encourage Canadian manufacturers to continue to invest in innovation in Canada, which is a positive sign for the industry. The ability to source skilled labour is also a key factor for Canadian manufacturers and the federal government has taken steps in the latest budget to address this issue as well.

Manufacturers have potential for improvement. They can enhance their communication and collaboration efforts throughout the supply chain, working more closely with customers and suppliers to find solutions to problems together, leading to increased efficiencies and greater success on both sides. They can prepare themselves for future growth by more proactively assessing and addressing supply chain disruptions, rather than relying primarily on inefficient, ad-hoc reactions to fluctuations in demand. They can look for more ways to expand into high-growth emerging markets such as China and India, either for cost-effective sourcing or to grow their customer base.

With the Canadian government continuing to look outside North America for growth opportunities, negotiating trade deals with China, India, Panama, Peru, Brazil and Colombia over the last five years, and joining the Trans-Pacific Partnership in 2012, the risks and opportunities of operating in an increasingly global market have never been greater.

Canadian manufacturers have what it takes to succeed. They have survived and prospered through the last four difficult years where many in the industry globally have faltered. To continue to succeed, they need to maintain their focus on the cornerstone of the Canadian manufacturing industry – innovation – and work proactively to ensure they continue to grow in the future.



Laurent Giguère
National Industry Leader,
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Executive Summary

The economic crisis in Europe and prolonged recovery in the US have created uncertainty within the manufacturing industry. It has led many companies to reduce spending and focus on the bottom line – a trend we have seen throughout KPMG's last four annual surveys of Canadian manufacturers.

Also consistent with past surveys, Canadians are generally more optimistic than international manufacturers about the global economy over the next two years. Since Canada has fared relatively well throughout the last four years of recession compared to most developed nations, Canadian companies tend to have a brighter outlook overall. Most expect modest performance and few predict a decline in global GDP.

Other key findings from the survey include:

- **Canadian manufacturers struggle to finance their growth.** At the same time, they need to invest in innovation to succeed and so face a doubly challenging growth journey.
- **R&D funding is a key concern.** With some global companies already pulling their R&D out of Canada to benefit from more favourable R&D incentives in the US and elsewhere, Canada's federal and provincial governments should take note that manufacturers find the lack of R&D funding to be a major challenge.
- **Short-term thinking currently pervades the industry.** Manufacturers are focusing on profitability and stability, rather than taking risks and investing in technology to increase competitive advantage and growth. If left too long, such a strategy could leave Canadian manufacturers behind their global competitors.
- **Risk management planning for disruptions within the supply chain is not a high priority among Canadian companies.** Establishing proactive risk management plans is one area for improvement, especially for those aspiring for global growth.
- **Emerging markets including China continue to gain significance.** Even though the US continues to be Canada's key market, with growth projections for 2013 of 7.5 percent¹, it is easy to see why Canadians are focusing more of their growth efforts on China.

¹ The Conference Board, Global Economic Outlook 2013, January 2013 update, <http://www.conference-board.org/data/globaloutlook.cfm>

Business Outlook

The International Monetary Fund's World Economic Outlook for April, 2013 predicts GDP growth of 3.3 percent for the world's economy. The IMF's outlook is buoyed by high growth projections for China (8.0 percent), India (5.7 percent), and Latin America and the Caribbean (3.4 percent), and tempered by sluggish growth estimates for advanced economies (1.2 percent) including the US (1.9 percent), Europe (-0.3 percent) and other developed nations such as Canada (1.5 percent). The IMF's projections for 2014 rise slightly to 4.0 percent overall.²

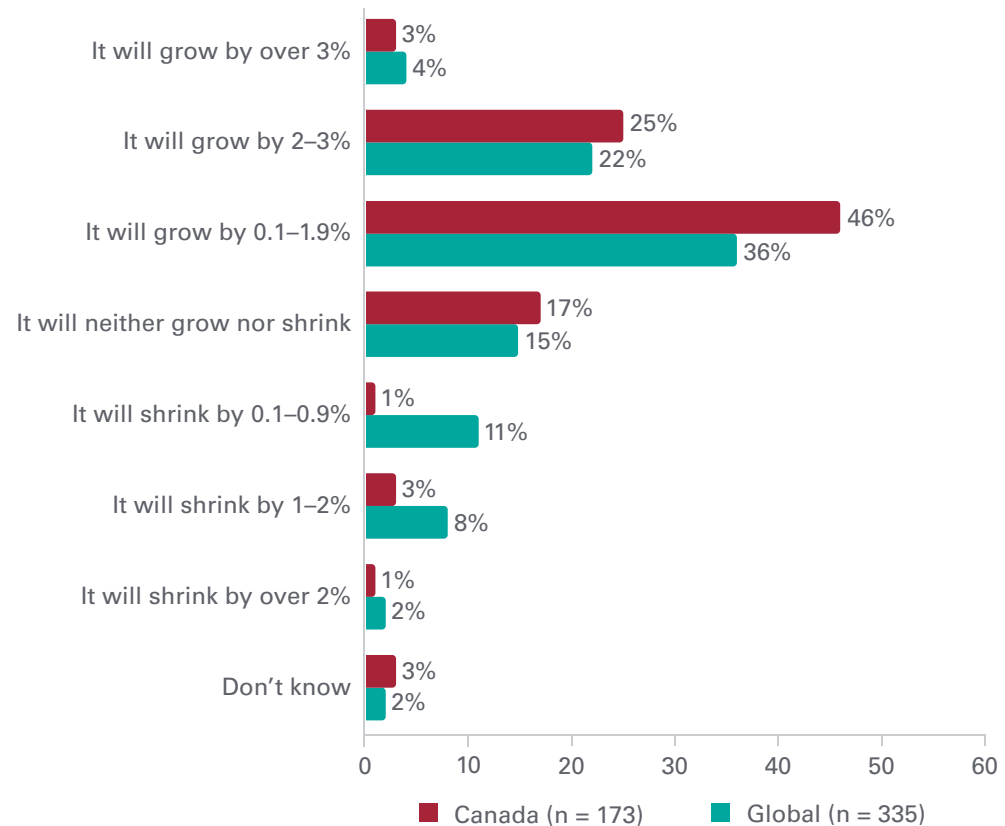
² International Monetary Fund, World Economic Outlook April 2013, <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf>





When asked what their outlook is for the global economy for the next one to two years, Canadian manufacturing executives have similar, if more conservative, views. One quarter believe the global economy will grow by only 2 to 3 percent and almost half believe growth will remain low, at between 0.1 and 1.9 percent. While more than one fifth of global manufacturers believe the global economy will shrink anywhere from 0.1 to more than 2 percent, only 5 percent of Canadian manufacturers share this pessimistic view.

Global economic outlook for the next 12 to 24 months



With two thirds of respondents reporting revenues last fiscal year of less than \$100 million, the majority of Canadian manufacturers surveyed are smaller- to medium-sized niche market businesses, for which sales growth (74 percent) overwhelmingly is the top strategic priority. Respondents more closely mirror the thinking of their much larger global counterparts when it comes to reducing cost structure (56 percent vs 51 percent) and increasing R&D or developing new product lines (34 percent for both Canadian and global companies)

With fewer products and product lines, the more nimble Canadian companies find greater speed to market is less of a priority (17 percent), compared to global companies, which still struggle with this issue (34 percent). In fact, almost two-thirds of Canadian manufacturers indicate the time it takes to bring new R&D projects to market is significantly shorter than it was five years ago, compared to only 48 percent of global companies.

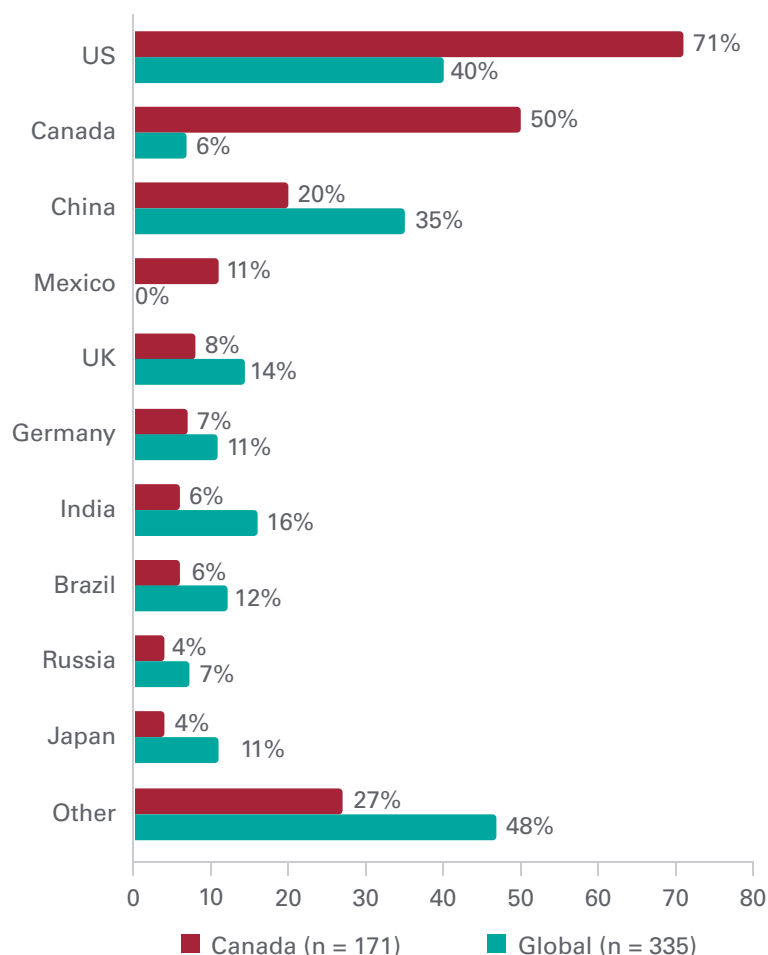
Risks for Canadian manufacturers, which operate mainly in North America, are less diversified, so respondents are not as concerned about improving risk controls (15 percent) compared to larger, global companies, for which this strategic priority ranked second, together with sales growth (36 percent). And with less diversified lines of products, exiting unprofitable business lines is far less of a concern for Canadian companies than global manufacturers for which this strategic priority could significantly impact the bottom line.

Top strategic priorities over the next two years

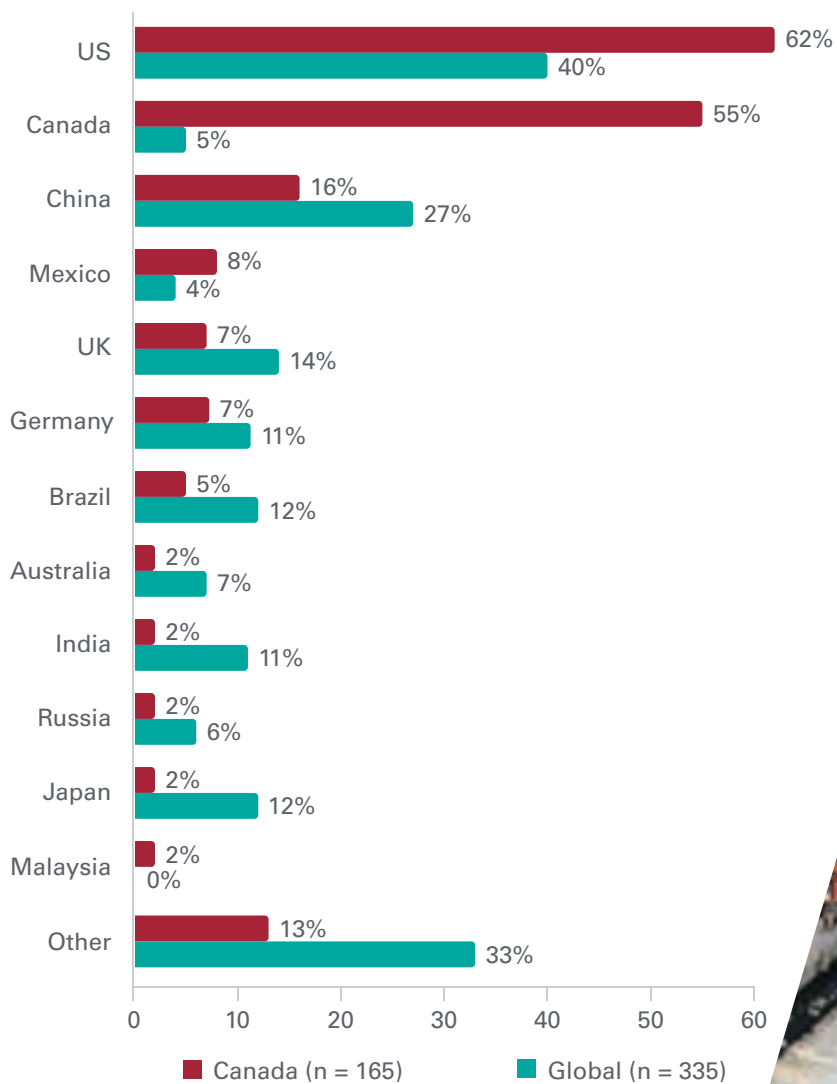


Both Canadian and global manufacturers are looking to traditional markets for sales and profit growth, with the US leading the pack for both groups (71 percent and 40 percent respectively). This focus on North America makes sense for Canadian companies because this is one of the key markets in which they can be competitive and succeed. But Canadian companies are recognizing increasing opportunities outside the US and Canada, with 31 percent expecting to increase sourcing from China and 12 percent from India. Looking beyond increasing their competitiveness by sourcing in emerging markets, one fifth project China will account for the majority of their sales growth in the next one to two years and 16 percent, their profit growth. Global companies clearly have scale on their side when it comes to entering and taking advantage of the growth opportunities present in these markets, but the potential benefits are also not lost among manufacturers here at home.

Countries accounting for major sales growth in next two years

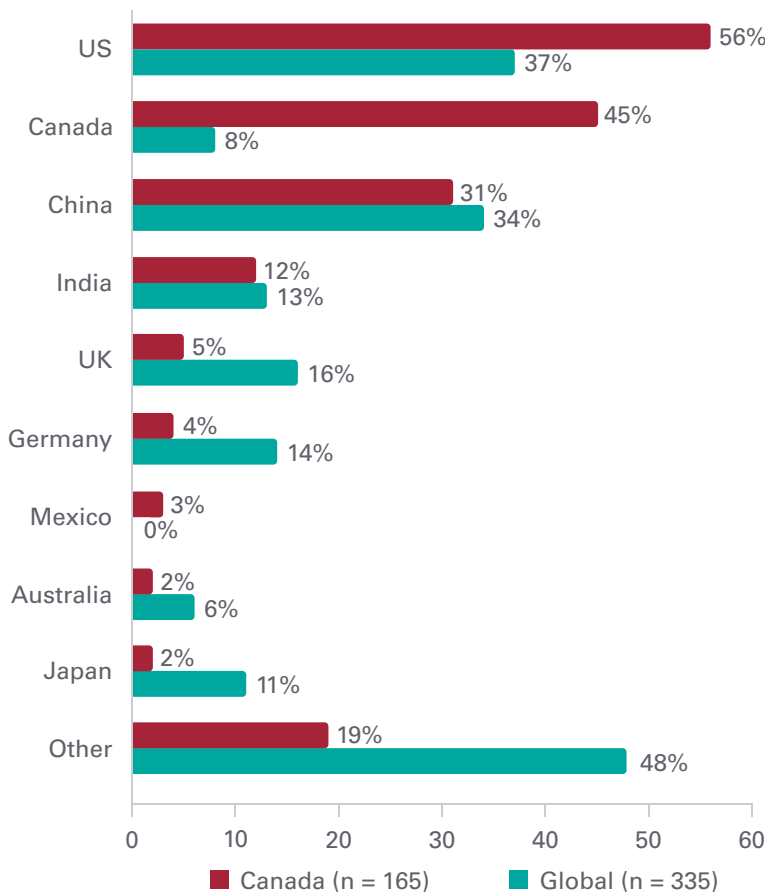


Countries accounting for major profit growth in next two years





Countries accounting for increased sourcing over next 12 to 24 months



Like their global counterparts, the two biggest challenges Canadian companies expect to face over the next 12 to 24 months are intense competition and price pressures (60 percent) and keeping the business model competitive (36 percent). Efficiency in R&D/product development ranks as the third most important challenge for Canadian companies (32 percent), but poses much less of a challenge for global companies (17 percent). As niche players that rely on innovation to compete and differentiate themselves, maintaining efficient R&D processes is clearly a significant concern for Canadian companies, compared to larger global organizations that are likely to compete more on price. Accessing capital and financing also poses a challenge for one quarter of Canadian manufacturers, compared to only 9 percent of global companies for reasons of scale. Large global companies tend to be publicly traded and so have access to global financial markets, which smaller, generally private, Canadian manufacturers do not.

With less diversified sources of financing, it is often more problematic for Canadian manufacturers to fund growth. At the same time, these companies have to invest in innovation to maintain their competitiveness and so, face an arduous “double challenge” that can be difficult to overcome.

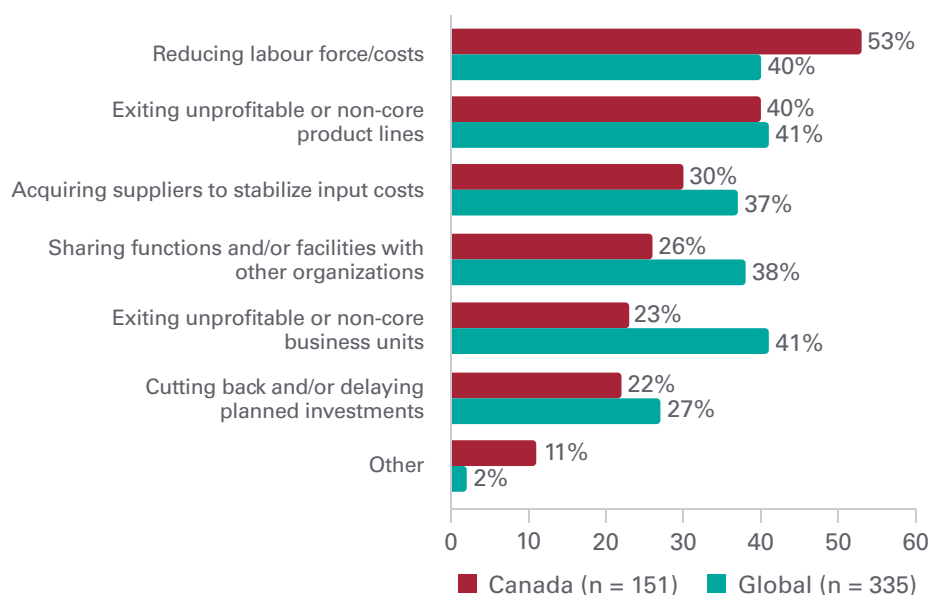
With less diversified sources of financing, it is often more problematic for Canadian manufacturers to fund growth. At the same time, these companies have to invest in innovation to maintain their competitiveness and so, face an arduous “double challenge” that can be difficult to overcome.

Biggest challenges for the business

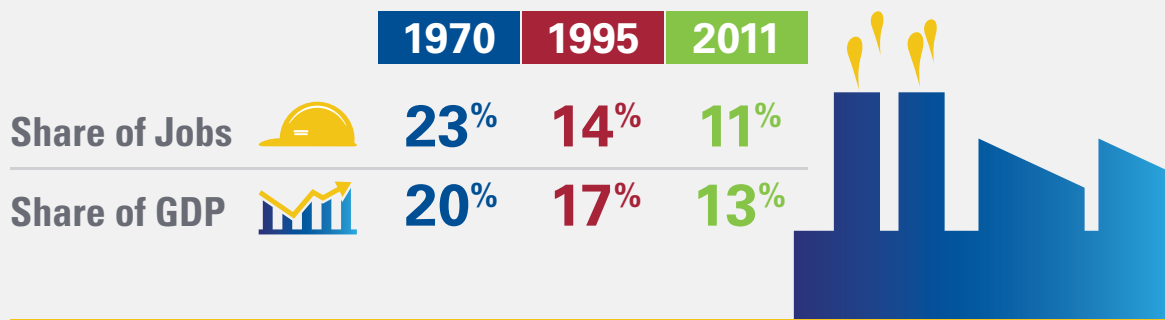


When it comes to controlling costs, global manufacturers use a combination of several strategies, whereas Canadian companies tend to focus on two areas: reducing labour force/costs (53 percent) and exiting unprofitable product lines (40 percent). Operating in a vast country with low population density means sharing functions or facilities with others becomes impractical for smaller companies (26 percent), whereas global organizations with multiple locations spread around the globe and greater commonality among businesses of similar size and complexity view it as a viable strategy (38 percent).

Priority cost-control areas



A Snapshot of Manufacturing in Canada



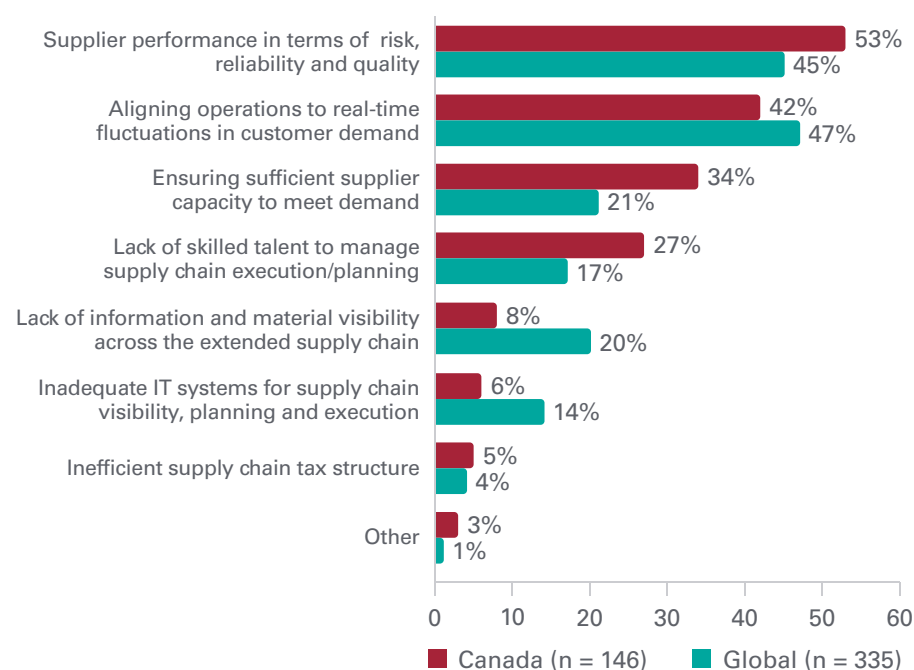
Source: *Canadian Manufacturing Malaise: Three Hypotheses*, by Matt Krzepkowski and Jack Mintz, University of Calgary, The School of Public Policy, Volume 6, Issue 12, March 2013, pages 3-4, <http://policyschool.ucalgary.ca/sites/default/files/research/canadian-manufacturing-final.pdf>

Demand-driven Supply Chains

One of Canada's competitive advantages in the global market is the strength of our skilled, university-educated workforce, which can be a boon to a manufacturing industry that is focused on technological innovation. But Canadian manufacturing is also seeing a shortage of skilled workers in the trades, which is increasingly becoming an issue within the industry. So much so that the 2013 federal budget includes the Canada Job Grant, which connects skills training with employers and jobs across Canada, and support for internships and apprenticeships to connect recent graduates with jobs that need their skills.³

Canadian manufacturers also see a lack of skilled talent to manage the supply chain. With relatively few universities across the country offering degrees with a focus on supply chain planning and execution compared to the US and Europe, it is easy to see why respondents in Canada are more concerned (27 percent) about finding skilled supply chain experts, compared to global companies (17 percent). Three challenges – supplier performance, aligning operations to customer demand, and ensuring supplier capacity to meet demand – are cited by Canadian and global companies alike as the top supply chain issues.

Top supply chain challenges



³ Canada's Economic Action Plan 2013, Canada Job Grant, <http://actionplan.gc.ca/en/initiative/canada-job-grant>

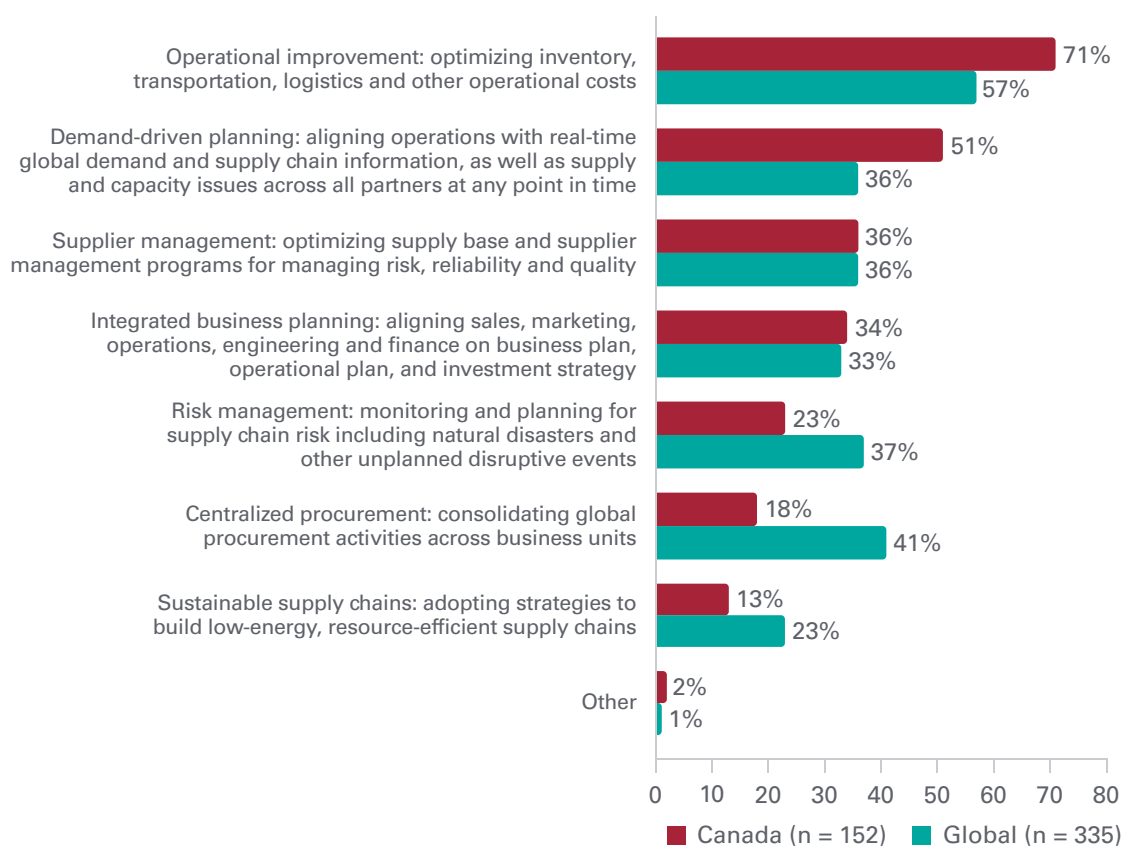
As they aspire to grow, Canadian manufacturers will need to move to greater volumes, which means greater standardization of products. This in turn opens them up to greater competition, reducing the flexibility they have to deal with supply chain interruptions or quality issues.

More than half of Canadian respondents cite demand-driven planning as a top operational priority, compared to only 36 percent of global firms. Because of their size and scale, global companies are able to invest in more sophisticated, proactive, demand driven processes that provide them with more long-term visibility into demand considerations. Many Canadian companies, on the other hand, are using fairly basic, reactive systems and processes.

The second most important strategic priority for global companies is centralizing procurement activities (41 percent), an issue that ranked only sixth among Canadian respondents. Global companies have the geographically diversified, multi-source, multi-plant operation that could benefit from consolidating procurement activities, whereas smaller Canadian companies are often operating out of a low number of locations, with far fewer suppliers and so they already benefit from centralized procurement.

Risk management ranked third among global companies, but appeared far lower on the list of priorities for Canadian companies. Canadian manufacturers do not face as wide a range of supply chain risks as global companies, but they should have plans in place to address them. As they aspire to grow, Canadian manufacturers will need to move to greater volumes, which means greater standardization of products. This in turn opens them up to greater competition, reducing the flexibility they have to deal with supply chain interruptions or quality issues. Having appropriate plans in place to mitigate supply chain risk now, will help prepare them for future growth.

Leading supply chain strategies

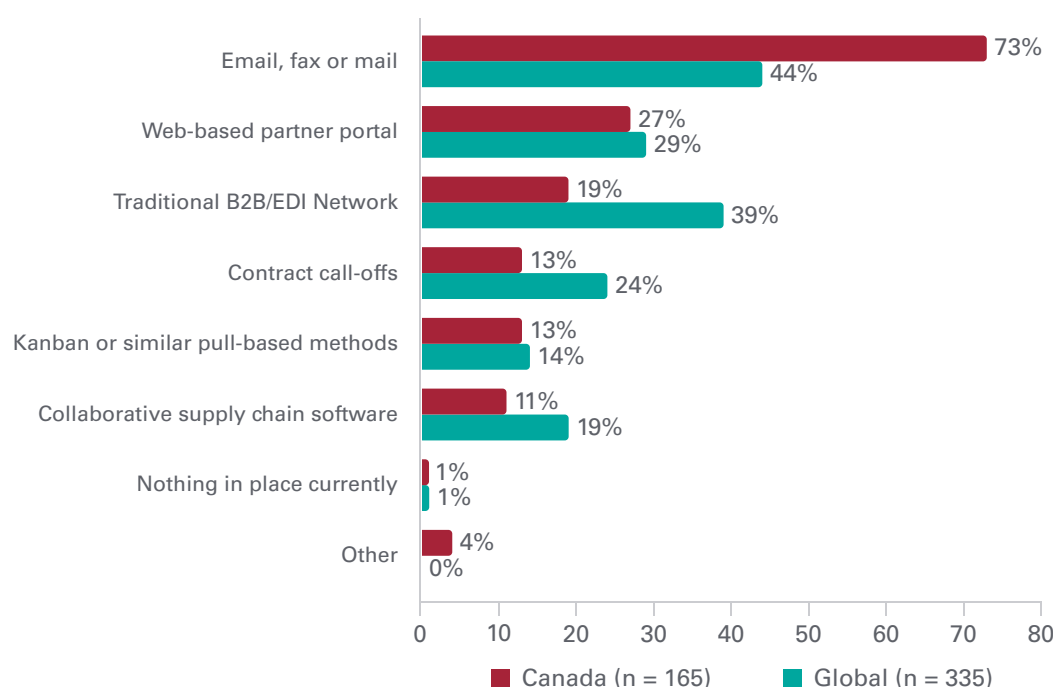


Visibility into the supply chain continues to be a challenge for most manufacturers, Canadian or global. Only 7 percent of Canadian companies and 9 percent of global manufacturers say they have complete visibility into tier one and two suppliers. Most indicate they have limited visibility into tier one suppliers, and none into the second tier and beyond (46 percent and 49 percent respectively). Reasons for the lack of visibility have much to do with the methods used by the majority of manufacturers for sharing data with suppliers. Almost three quarters of Canadian respondents and 44 percent of global companies still use email, fax or mail to transmit demand information through the supply chain.

Due to their sheer size, global companies have greater ability to invest in more sophisticated systems, such as web-based portals or collaborative software, whereas many Canadian companies simply don't have the bandwidth. In some cases, they may not even have the need. Operating mainly with a single manufacturing site and dozens or hundreds of suppliers, such expensive and complex technology might prove an excessive solution. For global companies with thousands or tens of thousands of suppliers, technology-driven data sharing systems offer far greater benefits for the cost.

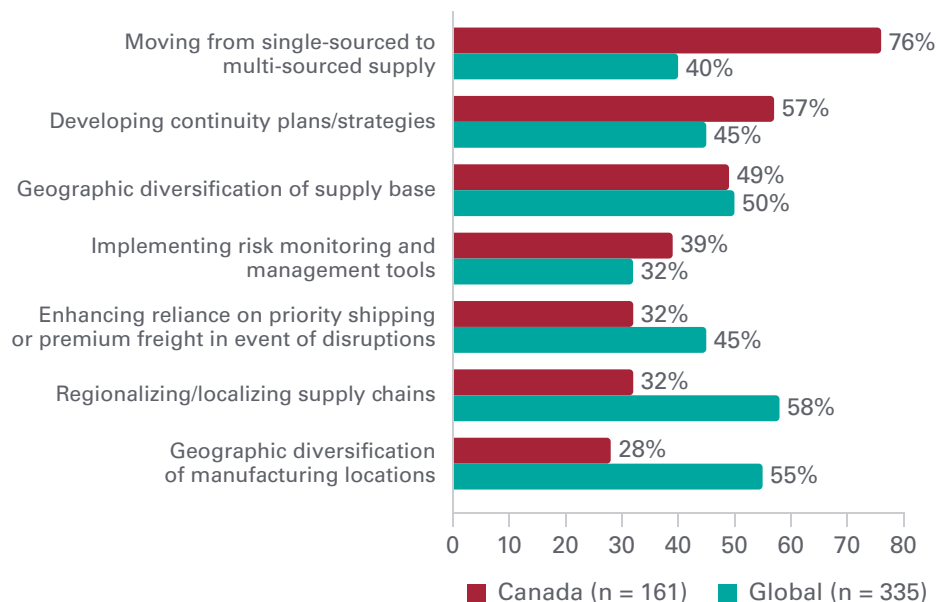
Software or web-based systems offer real-time currency of information, something from which niche-market, demand-driven Canadian manufacturers could benefit. One solution, which many Canadian companies do not yet use to their full advantage, is simply sharing forecast or stock availability information on a more regular and frequent basis. Moving from an "as-needed" or monthly communication, to a weekly or even more frequent routine of data sharing through low-cost means such as emails and Excel files, would add greater visibility into the supply chain. It offers a clear competitive advantage for smaller- to medium-sized Canadian manufacturers looking to create greater efficiency in the supply chain and reduce amounts of safety stock.

Leading data sharing methods



It has become a leading practice among manufacturers worldwide to diversify the supply base among multiple suppliers to reduce risk. Canadian companies realize that moving from single-sourced to multi-sourced supply (76 percent) is a good way to reduce risk in the event of unanticipated disruptions, compared to only 40 percent of global companies, most of which have already adopted this model. In fact, the trend globally is focusing more on regionalizing or localizing supply chains (58 percent), around manufacturing plants or customer bases, particularly in response to rising fuel and transportation costs, and meeting greater customer demands for just-in-time manufacturing. Canadian companies are not as focused on pursuing this strategy for improving supply chain management (32 percent), as their smaller supplier base might already be localized around a single location.

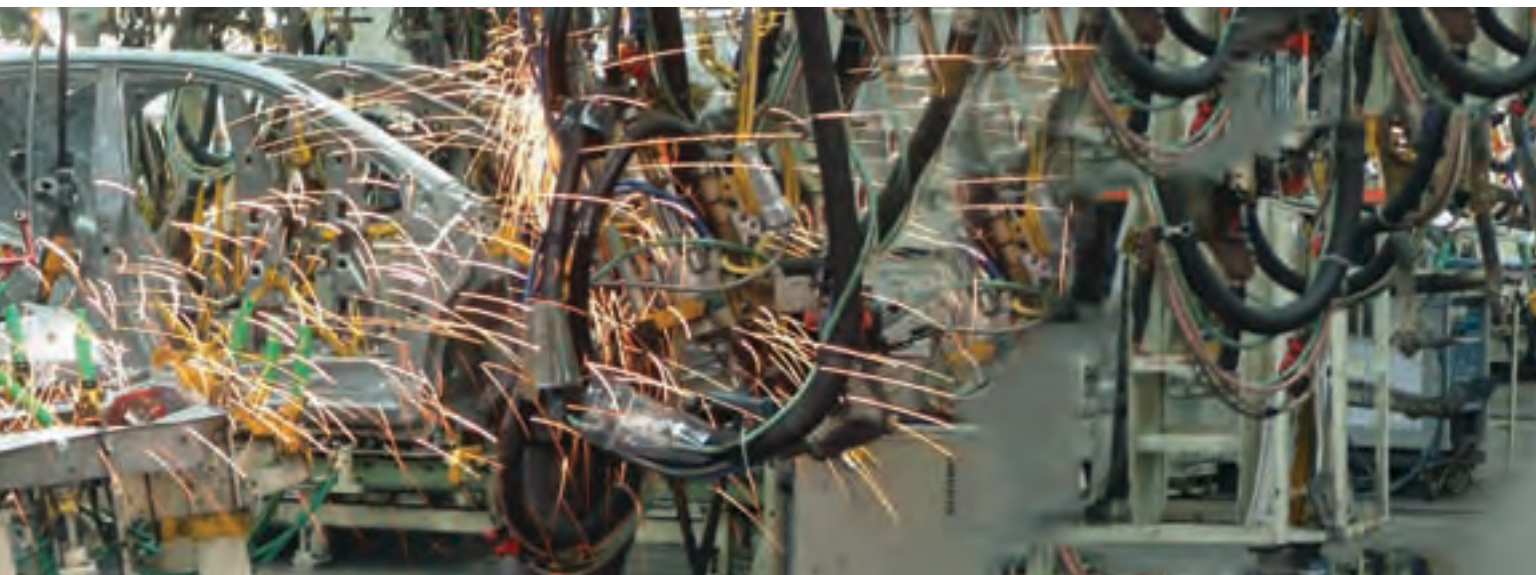
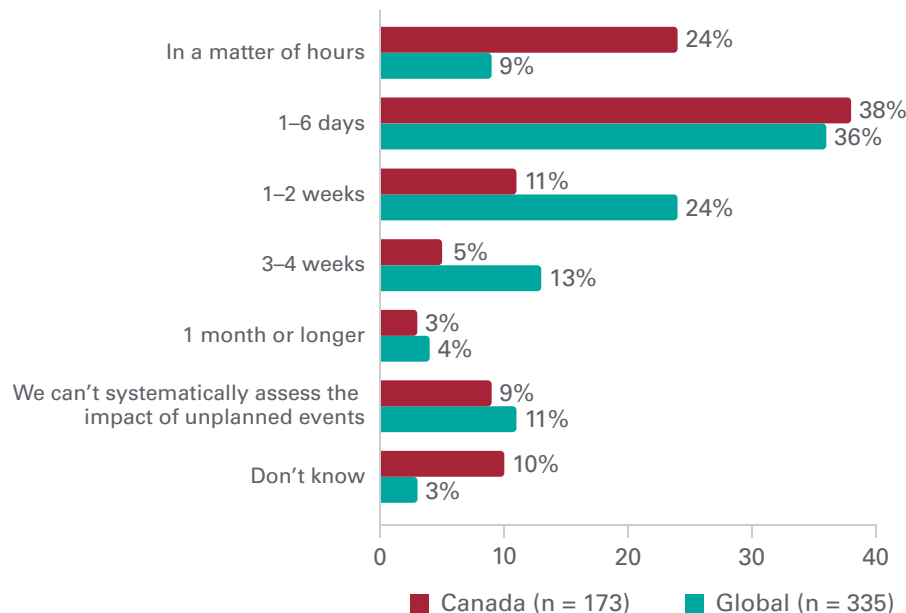
Actions taken to manage supply chain risk and continuity



On the surface, Canadian companies seem to have a better handle on assessing the impact of unplanned supply chain disruptions. Almost one-quarter can assess the impact of a natural disaster or supplier facility shut down in a matter of hours, and 38 percent within one week. Niche market manufacturers have far fewer suppliers to manage. It's no wonder globally, because of the size and complexity of their supply chains, that only 9 percent of manufacturers can react within a matter of hours and 36 percent between one and six days.

Almost one fifth of Canadian manufacturers can't assess or don't know how quickly they can assess the impact of such disruptions. It is one area of supply chain management that offers potential for improvement. Canadian companies that currently use an ad-hoc approach that causes delays within the supply chain and forces them into a "fire-fighting" mode when disruptions occur, can benefit from putting a plan in place to be proactive, adjust and prevent demand issues before they occur.

Time taken to assess the impact of unplanned supply chain disruption



R&D, Innovation and Growth Creation

In the current economic climate, manufacturers are displaying a tendency toward short-term thinking, focusing on the bottom line, rather than long-term thinking, with the view to increasing competitive advantage.

Although the key competitive advantage that Canadian manufacturers have in their mainly North American market is innovation in products and technology, 79 percent are looking to enhance existing product lines and services, versus investing in breakthrough or disruptive innovation (15 percent). This approach is mirrored by global companies and comes as no surprise given the state of the global economy. Though not as hard-hit as many of their global counterparts by the downturn in the economy in the last four to five years, Canadian manufacturers have still come through a prolonged period of slow to stagnant growth, with high levels of uncertainty.

Larger Canadian manufacturers in several sectors, including automotive, and aerospace & defence, are reducing their R&D investments considerably. Tier two and three manufacturers in these sectors who may rely more heavily on cutting edge R&D for growth are also feeling the crunch. In fact, from 2007 to 2011, R&D spending in Canada decreased 8 percent.⁴

Many smaller manufacturers are following the example of their larger counterparts and going back to tried and true methods, spending on smaller innovations or tweaks of products and processes that do not require large outlays of capital, reserving their spending for when the economy resurges.

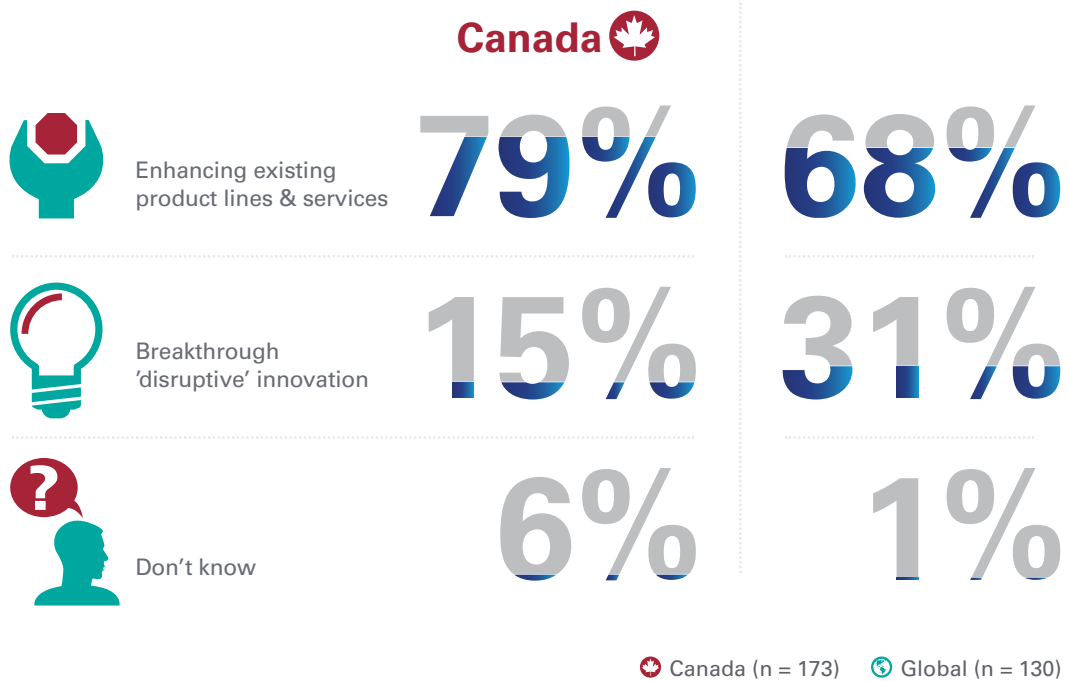
In many cases, these more entrepreneurial manufacturers do not have access to the capital required to push R&D boundaries, but even if they did, they are not seeing a willingness on the part of their customers to pay for taking on the risk inherent in disruptive R&D. In the current economic climate, manufacturers are displaying a tendency toward short-term thinking, focusing on the bottom line, rather than long-term thinking, with the view to increasing competitive advantage.

While this approach is understandable in the circumstances, Canadian manufacturers run the risk of falling behind their global counterparts. When R&D and innovation are the cornerstones of your competitive advantage, focusing on the short-term for too long could lead competitors to catch up and overtake the market with lower-cost products.

Another reason for the decline of R&D for new products compared to innovation within existing product lines may relate to the lifecycle of some products coming to an end. Within the automotive industry, for example, over the last three years and for the next two years, the industry has seen and is expected to see as many as 60 to 80 new platform launches. However, in 2015, the industry may see no more than 10 new platforms hitting the market because the R&D lifecycle is coming to an end. Since disruptive innovation happens in the earlier stages of the lifecycle, we may be seeing only minor tweaks and adjustments to maintain the existing product lifecycle, without any major investments in R&D for the near term, until the next lifecycle begins.

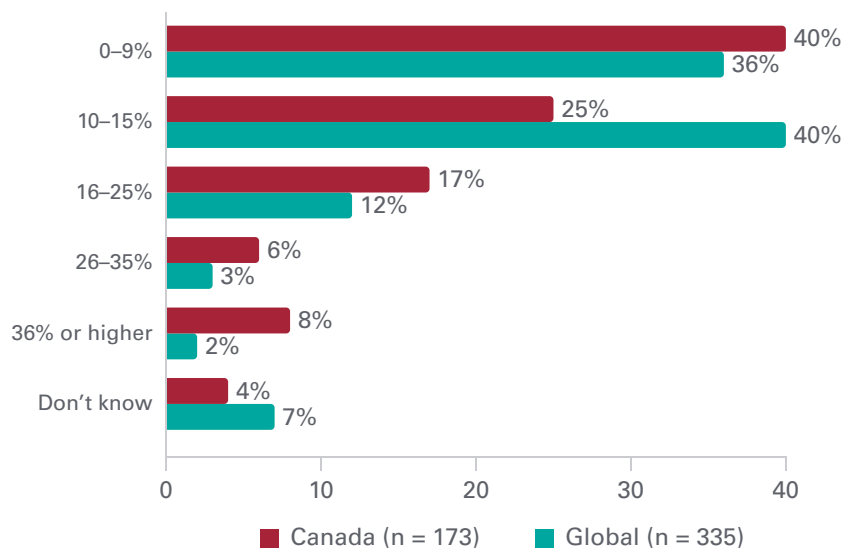
⁴ OECD Country statistical profile: Canada 2013, http://www.oecd-ilibrary.org/economics/country-statistical-profile-canada_20752288-table-can

Primary strategy for enhancing innovation



In fact, 65 percent of Canadian manufacturers and 76 percent of global manufacturers are planning to spend between 0 and 15 percent of company revenue on new products over the next two years.

Revenue projection for new innovation and product introduction



In some sectors, Canadian subsidiaries of US parents are seeing their R&D programs move to the US, Mexico and other lower-cost jurisdictions with enhanced government-funded tax regimes. If Canadian manufacturers are to remain competitive and if the Canadian economy is going to continue to grow, this trend needs to be reversed.

The top barrier to innovation among Canadian companies is lack of R&D funding/resources (47 percent). Canada has one of the most beneficial R&D tax incentive programs in the world⁵, but it lacks direct funding for R&D projects. Unlike R&D tax regimes in other countries, which focus primarily on direct funding and to a lesser degree on tax incentives, Canada does the opposite. Canada does not have as supportive an environment as many smaller manufacturers need for conducting the kind of disruptive R&D that will grow their businesses.

The Canadian government understands this and over the last two federal budgets has allocated more direct funding for R&D, but other countries are doing an even better job. Increasingly, countries such as the US, UK, Australia, Brazil and Chile are becoming more aggressive in attracting R&D to their respective jurisdictions because they understand the spin-off benefits R&D creates for their economies.

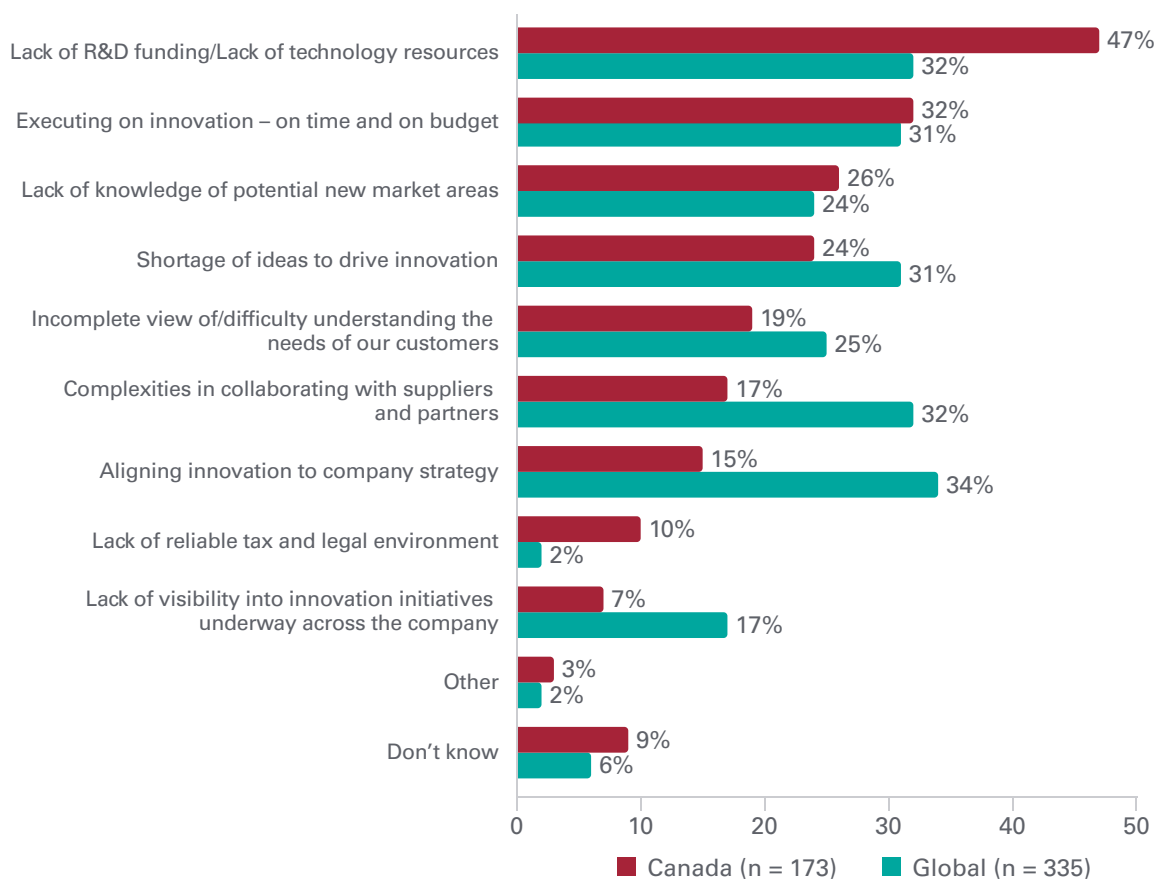
In a case of “if you build it, they will come”, these nations entice companies to locate their R&D projects within their borders, and then seek to provide them with lucrative reasons to move manufacturing and other aspects of operations there as well. In some sectors, Canadian subsidiaries of US parents are seeing their R&D programs move to the US, Mexico and other lower-cost jurisdictions with enhanced government-funded tax regimes. If Canadian manufacturers are to remain competitive and if the Canadian economy is going to continue to grow, this trend needs to be reversed.

⁵ Competitive Alternatives 2012: Focus on Tax, <http://www.kpmg.com/Ca/en/services/Tax/Focus-on-Tax/Documents/competitive-alternatives-focus-on-tax-english-v2.pdf>

On the innovation front, collaborating with suppliers and partners continues to be a challenge for global manufacturers (32 percent), but Canadian companies do not rate it as a significant issue (17 percent). In some sectors, the niche-focused nature of Canadian manufacturers means they must collaborate more closely with suppliers on innovation in order to continue to grow and compete. As the global response highlights, however, many larger manufacturers still do not view suppliers as part of the innovation solution, working with them on joint research projects or ways to make the supply chain more innovative and efficient. Many do not seek to understand the complexities and issues that suppliers face and continue to push problems down the supply chain rather than collaborating for shared success.

This is surprising, given more than half of Canadian and global respondents alike agree that partnerships, rather than in-house efforts, will characterize the future of innovation. Half of Canadian companies have stronger links between R&D and the supply chain, whereas only 37 percent of global companies share this view, again highlighting the strength of the supply chain among niche market manufacturers, compared to larger, high-volume commodity providers.

Ability to innovate and the challenges faced



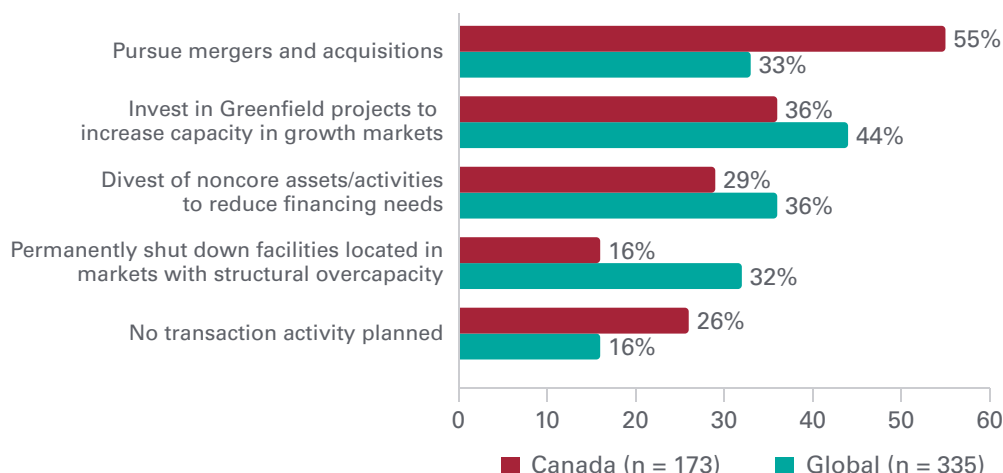
Business product innovation process

Canada Global 

	Agree (%)	Disagree (%)	Neither agree nor disagree (%)	Agree (%)	Disagree (%)	Neither agree nor disagree (%)
The links between our R&D function and marketing are very strong	66	16	18	46	40	14
The time taken to bring new R&D projects to market is significantly shorter than five years ago	62	17	21	48	39	13
We use a formal project management process to approve continuing investment in each R&D project underway	59	27	14	56	32	12
Partnerships, rather than in-house efforts, will characterize the future of innovation	54	24	22	53	33	14
The links between our R&D function and supply chain are very strong	52	26	22	37	44	19
We are seeing significant ROI on our R&D/innovation investments	51	20	29	53	36	11

Looking ahead over the next two years, more than half of Canadian companies plan to pursue M&A transactions, compared to only one third of global companies, the majority (44 percent) of which are looking to increase capacity in growth markets by investing in greenfield projects. The lack of funding and lack of access to capital among Canadian manufacturers, combined with higher input costs and increasingly squeezed margins, means these companies cannot grow enough organically to continue to succeed in the market. Instead, many manufacturers are looking to the economies of scale that come with a larger, high-volume, low-margin business, and so are planning to pursue M&A transactions. As smaller, often family-owned businesses, many Canadian manufacturing companies also face succession issues and are contemplating M&A transactions as their succession plan.

Transactions to be pursued in the next two years



2013 Federal Budget Focuses on Innovation

The 2013 Federal Budget looks to innovation in the manufacturing industry as the key to continued growth and success, and outlines several areas of support for Canadian manufacturers.⁶

The Budget provides \$1.4 billion in tax relief by extending the temporary accelerated capital cost allowance for machinery and equipment to 2015, and the depreciation rate on manufacturing or processing machinery and equipment will be extended for two years to help manufacturers retool and remain competitive.

With a strong focus on supporting manufacturers, the Canadian government will provide \$920 million over five years to renew the Federal Economic Development Agency for Southern Ontario and extend the Eastern Ontario Development Program. It will also provide \$200 million over five years for a new Advanced Manufacturing Fund, which supports companies creating new and innovative products or production methods, such as prototyping, demonstration projects and advanced product testing.

In the Aerospace and Defence sector, the budget provides stable funding of nearly \$1 billion over five years to the Strategic Aerospace and Defense Initiative to support innovation projects, and funds the Aerospace Technology Demonstration Program, with \$110 million over four years starting in 2014-15, and \$55 million annually thereafter, to support large-scale technology demonstration projects that show strong commercialization potential.

The Automotive Innovation Fund has been renewed for an additional five years as has the \$250 million to support automotive firms undertaking large-scale R&D projects that involve innovation or green/fuel-efficient vehicles. Launched in 2009, Automotive Partnership Canada will also continue to support significant, collaborative R&D initiatives that benefit the Canadian automotive industry, including collaborative green technologies developed by universities and industrial partners.

Looking at Forestry, the Budget provides \$92 million over two years to help the sector increase its investments in innovation and develop new markets for forestry products. The Canadian government will also continue to provide funding for Investments in Forest Industry Transformation, a four-year program launched in 2010 supporting projects that use new technologies to create non-traditional, high-value forest products and renewable energy, and the Forest Innovation Program, a two-year initiative launched in 2012-13 that helps forestry companies innovate and adopt emerging technologies.

⁶ Jobs, Growth and Long-term Prosperity, Economic Action Plan 2013, <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf>

Conclusion

With R&D investments and innovation spending declining over the last four years and expected to remain stagnant in the short term due to lack of funding, Canadian manufacturers run the risk of falling behind their global competitors on this, their key competitive advantage.

Companies also feel they need to gain more efficiencies in and greater access to funding for their R&D and innovation efforts if they are to maintain their competitive advantage. Though the respondents in our fourth annual Canadian Manufacturing Outlook survey understand this, the road to growth for smaller Canadian companies that rely on innovation is a challenging one in a risk-averse economic climate in which financing for high-risk innovation projects is scarce.

The North American market has fueled and continues to fuel growth among Canadian manufacturers. Though some have begun to venture further afield, sourcing from and selling to emerging markets such as China and India, many Canadian manufacturers have yet to begin exploring these high-growth markets.

Ad-hoc risk management and continuity planning strategies are forcing companies to react to demand disruptions or issues, rather than proactively addressing them and promoting supply chain efficiencies. Visibility into the supply chain is managed manually, but could be improved through more frequent and consistent communication with the supplier base.

Canadian companies are following some of the leading trends among global manufacturers of moving from single-sourced to multi-sourced supply to better manage supply chain risks.

These are opportunities for Canadian manufacturers - opportunities to grow by tapping into new markets, moving from a reactive to a proactive approach to everything from risk to supplier management, and collaborating and communicating better with suppliers to gain efficiencies and tighten operations. All are strategies that can help Canadian companies find the efficiencies they need to continue to be relevant in their markets, invest in R&D and innovation, and compete on the increasingly global manufacturing stage.

About the Survey

This report is based on a survey of 173 executives across Canada. Two-thirds are either CEOs or CFOs and three quarters are responsible for or significantly involved in their company's sourcing and/or manufacturing strategic development.

Almost half the companies are based in Ontario, 30 percent in Western Canada, and 20 percent in Quebec. Two-thirds represent companies with less than \$100 million in annual revenue, while 8 percent work for companies with more than \$1 billion in revenue. A variety of sectors are represented, including automotive (10 percent), industrial products (10 percent), chemicals (8 percent) and aerospace and defence (8 percent).



Industry Insights

KPMG professionals are engaged in the manufacturing industry. We proactively monitor the Canadian and global manufacturing business environment for new developments and challenges that can impact your organization. We then share this knowledge with you through on-going communications, publications, and professional development seminars.

Some of our recent publications include:



Canadian Manufacturing Outlook 2012: Push and Pull – Reducing Costs and Investing in Innovation

KPMG's third annual survey found that steady economic recovery in Canada and positive signs for economic growth south of the border have boosted the confidence of Canadian manufacturers.



2013 Airlines Disclosures Handbook – Financial reporting and management trends in the global aviation industry

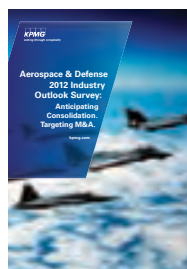
Our 4th disclosure handbook examines accounting standard changes impacting airlines, recent initiatives by airlines to secure consolidation, and the convergence of cost structures between low cost and legacy carriers.



Global Manufacturing Outlook 2013

Competitive advantage: enhancing supply chain networks for efficiency and innovation

A critical resource for manufacturing decisions makers, this 2013 report explores how manufacturers are emphasizing collaboration with partners and suppliers to become more efficient and innovative. Includes industry-wide survey results, executive interviews and KPMG insights.



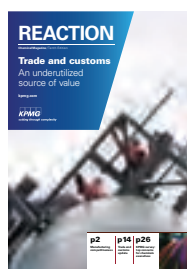
2012 Aerospace and Defense Industry Outlook Survey: Anticipating Consolidation – Targeting Mergers and Acquisition

The KPMG LLP (US) 2012 Aerospace & Defense Industry Executive Outlook Survey provides candid perspectives and insights from more than 100 CEOs and other C-level executives in the aerospace and defense (A&D) sector.



Global Automotive Executive Survey 2013

More than 200 senior automotive executives took part in this research, which looks at key issues facing the automotive industry, such as environmental challenges, growing urbanization, changing customer behaviour and the increasingly globalized nature of competition.



Reaction Chemical Magazine: 10th Edition

This edition focuses on manufacturing excellence and industry best practice. It also looks at import taxes and duties, an often overlooked area where companies can recognize significant cash tax savings.



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