

Take Back Manufacturing.... Imperative for a Balanced Economy.

The Take Back Manufacturing Initiative....

Many Canadians we talk with firmly believe that we must take action on the current state of decline of the manufacturing sectors in Canada and restore them for our future prosperity.

SME Toronto called together a TBM forum made up of a range of societies and association in June 2011 and is dedicated to the restoration of our manufacturing sectors with a focus on Ontario, and has been raising awareness of the need for a strong manufacturing base for our future prosperity.

We want government, the educational organizations, and industry to work closer together to develop a roadmap to make TBM happen.

TBM has 3 parallel imperatives to move us to a better future...

1st TBM Imperative... Government Action to ensure our policies assist manufacturing

Canada must take stock of the global situation and realize that although we have our abundance of natural resources, we must have a balanced economy of resources, services and manufacturing.

We all know about Globalized manufacturing, It's become accepted as part of our lives, But over the last 3 decades It's effect has been to hollow out, decline and damage the very fabric of our national manufacturing capability. We have lost 15% of our manufacturing intensity in just the last decade, as well as a continued erosion of a manufacturing base essential to incubate and support innovation...

Many believe that the western world has adopted the wrong form of globalization as far as manufacturing is concerned. We need to realign and rebuild a global environment so that as much as possible we stop moving wasteful, dirty and environmentally destructive container ships around the world to chase a transient labor advantage. We must refocus more on the equitable transfer of intellectual property so that we provide real value of knowledge to assist in stabilizing emerging economies without the detriment to all.

This firmly suggests that we must all make things far more rather than continue to import them, and it's also clear we won't get rich on services. Manufacturing is a way to add better value to the economy and fully employ the population with well paid jobs so they don't have to be supported by an already over-stressed government budget.

We have 500,000 Canadians who have been removed from the manufacturing workforce over the last 6 years and 1Million young Canadians unable to fulfill career goals or are out of work.

Even with growth in resources and service jobs it won't replace those jobs lost in manufacturing

We have unemployment measured using a real job value index well above 12%And yet due to the apathy for investing in manufacturing at all levels of our society it should be no surprise we have critical skill shortages.

All this in an economy just grinding by... It's just that bad.....

Economists now state that we have transferred wealth from the mature economies to the emerging economies at the expense of our kids' prosperity. Worse, we borrowed the money. Globalization in its present form may have benefitted the emerging economies but it's clear it has disadvantaged the mature economies with so far little done to maintain a balance. Fortunately we still have our well-developed consumers, and we need to capitalize on this and provide them with more of our own manufactured products so they, in turn, have jobs producing the products so they can still be consumers!

We need to therefore ensure our government strategically levels the playing field with sound national investment policies and controls for our manufacturing base.

A glimmer of hope... Reshoring has started in the US

It's now clear that globalized manufacturing is far less sustainable due to the realization that off-shoring is getting much more expensive due to increased transport costs which are due to increased oil costs, as well as double digit wage escalation in China which will also become a trend in other emerging economies due to growth and better prosperity expectations.

The landed cost tipping point in some sectors and commodities has already been reached with a more general landed cost parity between North American manufacturing and most emerging economies will be reached by 2015.

Many corporations and large consulting groups also recognize that there are many hidden costs and issues in supporting a remote supply chain. In general, local manufacturing is now considered no more expensive than off-shore production.

Local manufacturing also offers more stability and the ability to innovate at home more effectively. And, being closer to the customer has added inventory and flexibility advantages.

Also, global supply chains are intrinsically wasteful and by far the largest pollution source on the planet.

Due to this reshoring of the next generation of products is beginning to happen ... almost 50% of Global corporations are now firmly looking at reshoring the next generation of products to North America to be closer to our consumers...

So.. That's the good news..... Now the bad news...

We in Canada must work with our opposite numbers in the US and ensure that Canada gets aligned with the reshoring efforts happening in that economy which happens to be our closest and largest trading partner with an economy that is 10 times our size.

Any further focus on a global-based manufacturing strategy is way out of date based on the reshoring opportunity. Of course, we should excel at exports where we have clear advantage but the main imperative is to stop the severe and unnecessary import burden on our economy.

We need to add our voice to that being raised about reshoring south of the border.

We need our industries to understand how to evaluate the reshoring as an option and ensure they run the numbers to see if they are at the tipping point for reshoring so that they reach a more balanced source outlook.

However, to be at the same tipping point for reshoring as the US we must also take a real hard look at our Canadian dollar and align it with our US trading partner.

The strong Canadian dollar has been a huge problem to our manufacturing base and needs to be included in future government policy reviews. The CDN dollar has no entitlement to be escalated from a national productivity standpoint and is hurting exports and exposing us to higher than practical import competition. It's one of the reasons we should be concerned about Canada's ability to compete and although we are buffered by our natural resources it does make our economy unbalanced.

The notion that we as manufacturers have adapted well to the high \$ is an extremely dangerous assessment, as it's like putting a prize fighter into a ring with one arm tied behind his back. Yes, he may still give a good account of himself and get in a few rounds but he is going down eventually with unequal opportunity to win.

We should be less concerned about the reasons for the high dollar or how complex the discussions between the economists needs to be... we just need to fix it!

What is really happening is that the high dollar is forcing manufacturing to augment its capacity by going offshore for components and subassemblies, and this has hurt the smaller feeder suppliers and material providers and that's why we have lost so many of the small to mid-sized businesses.. We have lost almost 50% of these in the last decade and this has also put pressure on productivity as the prime manufacturer passes this offshored work through his business and apparently maintains stable GDP at your level of visibility, but has suffered a capacity loss. This translates into a productivity loss by say cutting his shifts from 2 to 1, so they then have to carry more overhead per output which translates into productivity loss... This is not due to efficiency or under-capitalization but mainly through

utilization loss... Although capitalization will also be far less undertaken under this level of under capacity duress.

This effect has also put more pressure on the white collar jobs and we see extreme overhead cost compression with negative spin-offs in less provision for training etc. This “survival situation” is very unsustainable... it’s a journey toward a smaller manufacturing infrastructure and far less reinvestment and a less robust skill base all of which is now turning up to further challenge us Sound familiar?

Many are looking to consolidate facilities due to this effect, and if they have regional facility’s... say one in the US and one in Canada we can tell you for sure based on our high \$ and other national lack of support for our manufacturing base which one will get to close!

We have ran numbers on these issues and we are at a 20 to 25% disadvantage with the US... the lower Corp tax is not much of an advantage as this is leveled with clever corporate transfer pricing, unless you are a small manufacture in which case you go out of business.

We need to be careful how you take the boardroom positioning inputs as many business leaders have to keep the investors at quiescence with positive statements.

We believe we need to look at the intrinsic competitive health of each sector in turn as some are benefiting from the maybe transient resource sector growth, but are far from naturally robust. Some sectors will always struggle to recover and are too far gone while others need to be nurtured to recover. Some sectors have been gutted for some time using a 30 year timespan such as the electronics industry and this is a huge dichotomy as it always had low labor content and high IP theft risk and its now also a global supply chain and offshored service and support nightmare today.

The impact on local economies and the stress on our local governments to manage with the reduced tax base is highly evident. We also have our consumers being serviced by individuals via virtual trade tools such as the internet without any ability to collect taxes from those services, although they are very much part of our economy. This is a prime example of free not fair trade.

The other main issue with the high dollar is its huge ability to drag us off balance on imports versus exports and the out of balance trends show this adverse situation... without our natural resources we would be plain insolvent.. It’s an unbalanced economy especially if you live in Ontario!!..... It’s more a going out of business plan....

It’s also clear from what we see that economists are having great trouble agreeing on almost anything related to this subject at this time, and certainly it may be confusing government action.

So we need government to wake up, look at all options and take action, and we hope it won’t be too little too late.

2nd TBM Imperative.... Education and training planning

We need to rebuild the workforce and install a solid education and training roadmap for the manufacturing Industries to support the TBM journey.

To support TBM we must combat the increasing skill shortages as we are currently over-educated and under-trained and we quickly need an integrated apprenticeship program across all trade, technical and professional disciplinesso we develop solid career pathways and balance education with training.

We also must take significant actions to attract young people to manufacturing careers, and this is one of the most important aspects of TBM.

Also, the public image of manufacturing needs work, it's still perceived as dark dirty and dangerous ... The next generation must see manufacturing as sexy and something to build their future upon.

We need to deploy knowledgeable industrialists into our school system to re-educate everyone, including the educators who may not have a good grasp of manufacturing as a career... This is a must, and we are talking a culture change. We have had three decades of people thinking manufacturing is bad news and has been viewed as dirty, dangerous, with risky and unstable employment, etc. We have a lot of work to do to change this negative image and just talking about TBM, telling the real story and showing what we as manufacturers do for the economy will help.

The TBM forum has outlined a vision and framework for an integrated apprenticeship system that requires one body for joint industry education and training and which would engage students while they are still in school and propel them through an integrated process to create trade, engineering, and management skills, and assists in placing them into a stable career journey with progressive companies that will embed ongoing training into the career plans.

3rd TBM Imperative.... Industry improvement

We need to provide expert help for our industry members to get advice and knowledge on how to be highly competitive.

Here are some of the elements we have included in a TBM roadmap we have created for our industry members to follow...

Industry must be ready for action with a reinstalled mindset for Continuous improvement, which many experts agree we have lost... This must include recapitalization, new technology investments and sponsored ongoing industrial training for our existing workforce.

We have significantly lost our competitive edge through a lack of attention to our core manufacturing capability due to the distractions of an offshoring focus over many years.

Our Industry leaders need to ensure their management teams “run the numbers” and do balanced sourcing reviews within our sectors to consider reshoring the next generation of products.

We also need to reconnect with the local manufacturing supply base and redevelop the clusters of medium and small manufacturers that have been lost through the last 3 decades of decline.

New technology is not much of a differentiator.... but we must stay current!

New technology will not be a huge differentiator for reshoring, with the main global sourcing decision framework being the operating costs of the supply chain and national policy actions to control that local economy so that it stays in balance...

Soon, with the portability of these new technologies and without new intellectual property rules the emerging economy manufacturers will move up the value chain and attract much more R&D, and we will lose any technological advantage. We may be first in a development cycle but the emerging competitors will be a close second. Sometimes second place position carries less risk and less cost.

However, we must not be complacent and must embrace these new technologies and stay current to ensure we maintain the competitive edge.

To summarize the government policies needed....

Support for TBM is growing at all levels and TBM forum members are being invited to present and participate in many policy level sessions. We are seeing positive changes, with all segments of the economy now beginning to see the economic imbalance issues we face.

We are being heard. The next step is to demand action.

The government policies we believe must be embraced, in an integrated way, by both Provincial and Federal governments include:

Get the Canadian and US dollars to the same reshore tipping point; normalize interest rates; lower taxes for investments on new products, technologies, and equipment; consider a global-based carbon tax to reduce energy waste.

Return to a localized trade bloc; reduce non-North American imports and increase support of strategic exports; participate in knowledge-based economy with improved intellectual property control and reduced Canada-US border differences.

Re-deploy capital investment into local value-adding industries; simplify industry incentives; encourage innovation and commercialization of new products and technologies.

Implement an integrated apprenticeship system; upgrade and maintain energy, logistics and communication infrastructure; improve regulatory efficiency; and remove wasted efforts from product and process compliance requirements.

What will it look like if we undertake TBM?

If TBM is embraced and undertaken into our future we will have:

- Real improvements in unemployment figures.
- Better balance in overall North American imports versus exports.
- Improvements in youth employment and real career development.
- A more value-added GDP and provincial budget headroom.

Please be aware that to make TBM happen will need vision and coordinated action and a “can do” attitude and not having these in place as a nation is our biggest risk for our future economic stability.

Read more about TBM on our website at www.sme-tbm.org

The videos on our front page will give more background.

The TBM detailed information package is at

<http://www.sme-tbm.org/app/download/7005197304/TBM+Information+package+22+july+2012.pdf>

The Push the red button on our website to take our ongoing survey to support the TBM journey...

Our TBM survey results are at...

<http://www.sme-tbm.org/app/download/7062925904/TBM+Survey+22nd+Nov+monthly+meeting+PDF.pdf>

Many articles on site but this one is a good summary...

<http://www.cimindustry.com/publication/CIM/issue/49>

The Vision of The Industrial Apprenticeship system..

<http://www.sme-tbm.org/app/download/7236536432/Draft+Vision+industrial+Apprenticeship+System.pdf>

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