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THE FUTURE OF CANADIAN MANUFACTURING: LEARNING FROM LEADING FIRMS

Diversified Manufacturing

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DIVERSIFIED MANUFACTURING

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Canadian manufacturing is not simply resources, autos and food. In fact, in 2012, the entire resource sector was only $189 billion of the $593 billion in sales from the manufacturing industry.[1] Although this sector is important to our economy, Canada's ability to attract and retain firms is related to what already exists in the ground, and neither business strategy nor government policy can change our global position in this sector.

Therefore, this study began with the transportation sector, and, more specifically, with three firms in the automotive parts business ($104 billion). Auto parts is an important sector and one that has received a great deal of media attention and government support. Agri-food was the second sector that we chose to study and for good reason. Canada remains a global leader in both agriculture and food/beverage processing ($99 billion).

However, what did this say about the rest of the manufacturing industry ($201 billion)? A deeper look into this sector reveals that this collection of underappreciated industries and often overlooked businesses remains a significant portion of the manufacturing economy in Canada. Further, the impact that these diversified businesses have on employment is significant, representing 54 per cent of all manufacturing jobs.

Despite the lack of attention from the public and with little substantial sector policy, these firms collectively employ more people than all other manufacturing sectors combined. Our ambition was to find three companies that represented the diversity of the Canadian manufacturing industry. Each is a global leader, demonstrated by consistent performance in the top quartile among their global competitors in two or more of sales growth, operating margins and return on assets.

Cover image courtesy of Shawcor.

1. Statistics Canada (2013). CANSIM Table 184-0002. Toronto stock exchange statistics, monthly (shares unless otherwise noted).

SHAWCOR

COMPANY PROFILE[2]

Shawcor Ltd. is a diversified global energy services company based in Toronto, Canada. It is engaged in pipeline and pipe services, petrochemical, and industrial segments primarily within the oil and gas industry, and also serves several markets in other industries, specializing in a range of technology-based products and services. The company operates in two main segments. The first, its Pipeline and Pipe services segment, is composed of seven business units and contributes roughly 91% of the firm's total annual sales.

The second, the Petrochemicals and Industrial segment, has two business units and contributes 9% of the firm's total annual sales. In 2013, it had $1,85 billion in global sales, a 25% jump from that of 2012, of which 50% were generated outside of North America, with 36% in the Asia-Pacific. The company employs 8000 individuals in 18 countries worldwide with major operations in Houston, Texas.

COMPETITIVE ENVIRONMENT

The pipeline and oilfield services industry can be subdivided into two distinct segments – commodities and technology. The commodities segment is fragmented into regional markets and is highly competitive. Due to the diverse areas of utility in commodity products, low barriers to entry exist in the commodities industry, paving the way for a large number of rival players to compete within the industry. The price demand elasticity of its products also tends to be low among clients. The technology segment is chiefly geared towards the construction and maintenance of offshore pipelines. As they tend to be situated in ecologically sensitive locations such as seabed floors and subject to a wide array of exogenous factors such as oceanic temperatures and volatile current movements, this segment necessarily command a high degree of advanced technology and expertise to drive its operations.

The ability to productively configure sophisticated development and manufacturing systems, such as employing proprietary materials, represent key differentiators in this industry. Other areas of competitive differentiation include – level of technology, geographic location, and company track record. Shawcor has had a proven record of excelling in these areas.

BUSINESS STRATEGY

Shawcor's core business strategy consists in making continuous investments in global pipeline infrastructure, making strategic Mergers and Acquisitions, and diversifying its range of product offerings. It aims to attain a 15% Return on Invested Capital (ROIC), an average annual net income growth rate of 15% over the full business cycle. Half of its overall growth is anticipated to come from organic growth, with the other half being from M&A's.

Shawcor leverages on its value-added proposition in each of its business segments as part of its overall strategic picture. In the commodities segment, Shawcor strives to enhance the value of products to its clients. In its pipe and pipeline services division, Shawcor undertakes main aspects of the pipeline infrastructure's value chain, from servicing and coating pipes transported from distribution facilities in pipe mills, to overseeing the electronic tracking, storage and delivery of the final product to clients.

2. Shawcor Ltd. (2013). Annual Information Form. SEDAR company profile database, public company documents. Available at: http://www.sedar.com/issuers/issuers_en.htm; and Lawrence Centre (2013). Future of Canadian Manufacturing case study interviews. Shawcor Ltd. Conducted on July 30, 2013.

Shawcor retains its competitive advantage through a combination of a robust manufacturing and service franchise. In the offshore and technology segment, Shawcor builds its competitive advantage through three key features – cutting edge technology, strategic location, and having a strong record. Shawcor possesses numerous strengths in technology.

One instance of this is its unique process technology, which focuses on next-generation coating technology that builds resistance against oil spills and other environmental hazards. Its pipe-coating operations are also strategically positioned next to its work site, cutting the amount of time used in the highly delicate transportation process. Moreover, Shawcor depends on its reputational excellence in product and services to establish a foothold in global markets. This is sustained by three key elements – its products, the plant, and company name.

Another unique competitive driver is its host of mobile coating facilities. As the sole company in its industry capable of its transportation, installation, operation and management, Shawcor has derived substantial economic benefits from them by eliminating the need to set up a permanent work site, thus enabling it to better manage and run expensive and lengthy projects, facilitating just-in-time deliveries and raising customer satisfaction by cutting distance and transportation costs, as well as mitigating geographical risks by obviating the need to commit to certain specific project locations. This allows it to enter high-risk markets where its competitors might be less equipped to serve.

Thanks to the savings yielded by its logistical efficiencies, Shawcor is placed to command a higher price for its quality, high value added products. Looking forward, Shawcor plans to add to its portfolio of service offerings and range of expertise to bolster its competitive advantage. It will also continue to be on the lookout for new company acquisition possibilities that represent a strategic fit to its overall growth plans.

For example, in 2008, ShawCor acquired FlexPipe Systems, which would provide an added boost to ShawCor's ability to rise to its position as an industry leader in international markets.

As for its business strategy in Canada, Shawcor will look towards exploiting the proliferation of new opportunities in Liquefied Natural Gas (LNG), predominantly in Western Canada. It also plans to expand its horizons in global markets for areas of untapped growth opportunities.

ORGANIZATIONAL STRUCTURE

Shawcor is organized into nine, decentralized strategic business units (SBUs), all operating under the Shawcor house of brands. Its primary revenue generating units house engineering and research facilities that are located in specific regions of operations to allow it to rapidly respond to local market needs with a more targeted, and localized range of product solutions. Its resource allocations strategy favors business units that are more strategically aligned with its overall operations, enhances the company's competitiveness, and possesses a competitive differentiator.

The decentralized structure of its business units yields the company two distinct benefits: it drives technological innovation and inspires empowerment among employees. Shawcor has made strong accomplishments in developing technologies in response to local market needs. Despite the centralized nature of its research and development division, ShawCor leans heavily on the opinions of its clients and local market requirements in its resource allocation decisions across its business units. Its ability to empower employees to take charge of strategic decisions allows for better execution and reliability, as well as improved worker performance.

Every quarter, Shawcor convenes a meeting in Toronto with its nine SBU's to discuss the current and future directions for the company. The first day typically centers on reviewing regular performance projections and key business issues.

This would be followed the next day by a series of remedial sessions to train low performing individuals to achieve better results. The aim of these quarterly meetings is to engage individuals from all business units of the company and instill a common vision of growth for the company. In addition, Shawcor also provides a range of management training and rotational programs as part of its overall employee development strategy. This allows for individuals to gain a fuller experience of the company, employ their talents across different fields, and explore career development opportunities. In turn, this endows each of the company's business units a greater degree of access to talent.

Since ShawCor's founding as a family business back in the 1930s, ShawCor has persevered in its commitment to a strong sense of accountability to its employees throughout its entire organization. The sense of dedication of ShawCor employees to their trade has translated to the continued, unparalleled success of the company over its years in operation. The company also continues to maintain a conservative financial structure, which shields its operations from substantial fluctuations in times of financial turbulence. It has also shied away from undertaking excessive returns for higher returns, as evidenced by its historically low levels of leverage. ShawCor views itself as a person-oriented company, embodying high levels of integrity, respect, and collaboration in its leadership style. Employees at ShawCor are rewarded for their dedication and leadership in their teams, departments, and business units. ShawCor aims to facilitate a culture of trust and collaboration among employees. The employees in turn have been more open to providing honest and constructive feedback, adding a continuous source of value to the company. The company recognizes that the voice of its employees is its greatest asset.

SKILLED LABOUR

ShawCor relies on low skilled labor to run its mobile operations in specific, offsite locations, while retaining its operations which are more proprietary in nature in Canada, in order to safeguard its intellectual property. ShawCor also strives to engage other industry partners at various junctures of its business development process. For instance, ShawCor benefitted from working alongside lean manufacturing experts within the local automotive industry in Ontario during its implementation of the ShawCor Management System (SMS).

This granted the company a superior advantage relative to operating in other markets. As SMS expands its application reach to business processes in offices, ShawCor will rely on its collaboration with experts in functional business process improvement to maintain its industry-leading standard of performance. By situating its operations in Ontario, ShawCor also benefits from access to a to a combination of skilled researchers, engineers and MBAs. By involving its skilled employees in its coaching initiatives, the company aims to open up its employees to greater knowledge sharing and impart company values and culture to them, motivating them to aid the company in its long run success. ShawCor draws a parallel in its story to that of Toyota. Directly replicating the basic operational components of a Toyota plant will not lead to the same level of success the company has – it is not about what you see, it is about your people's attitudes.

INNOVATION

In sum, ShawCor has spent $27.9 million over 2012 –2013. New product developments in 2012 included the Bredero Shaw division's HT ThermoshieldTM high temperature insulation system for steam injection lines and the Flexpipe division's new anti-buoyancy composite pipe product for use in shallow water applications. As an emblem of its excellence in its research and development efforts, ShawCor has been awarded multiple Offshore Technology Conference Awards, which recognizes innovative new products and service that provide significant impact for offshore production.

These include an award for the Simulated Service Vessel in 2012, and another for the Mobile Robotic Cutback System in 2013. ShawCor prides itself for its extensive and growing portfolio of intellectual property, including 270 issued patents, an industry-leading number. This has enabled it to drive out competitors and dominate in market share. Its research efforts are primarily facilitated by a unique host of laboratories in Toronto, including the award-winning subsea test facility. Another crucial company growth driver was its adoption of the ShawCor Management System (SMS), which was originally initiated as part of a pilot project investigating the application of manufacturing concepts in a project-based environment, framed as a regional, tools-based initiative involving common techniques such as lean and 5S2. This was done during a period where the concept of exploring new types of procedures in a project-based environment is rarely adopted in the industry, and still is up to today. As with any initiative, the program required nurturing to facilitate a culture of lean and continuous improvement, especially given ShawCor's ongoing success at the time. However the results achieved through the implementation of the tools and standards developed by the SMS group generated credibility for the program and successfully created a culture which is at the forefront of ShawCor's success. This program has generated benefits throughout the company in different ways from creating financial benefits such as cost savings, to reduction in operational down-time, to promoting higher safety standards.

Within a span of five years, SMS has evolved from a tools-based regional program to a company-wide, culturally-based, best practice environment. ShawCor has also added benchmarks and formalized the system around three areas: leadership, process and culture. The SMS team primarily focuses on the plant managers, coaching them on leadership and cultural development to become enablers of an initiative that would propel the company to new heights and break barriers to change towards a more optimal organization. With ShawCor's 75 locations across 18 countries, coaching the plant managers and providing them with the tools and knowledge necessary to apply lean and continuous improvement concepts proved vital in the growth of SMS. To document the process, the SMS team created a leadership guidebook which explains the system, its tools and objectives. Moreover, by involving employees from different levels of the company in these training programs, ShawCor was able to instrument the value-added capabilities of SMS to all facets of the company while monitoring their success through assessments and reporting.

Finally, ShawCor's company culture is the outgrowth of a hybrid of leader- and employee driven initiatives. SMS methodologies and systems act as the mechanisms that promote interaction between management and employees.

Tools such as Value-Stream Mapping engages employees to identify inefficiencies and improve the effectiveness of their work. The goal of SMS is to help employees at all levels succeed through collaboration, coaching and teamwork by encouraging a sense of respect, willingness to learn, and giving them the necessary tools to succeed.

The program works across all cultures and has been implemented successfully across all divisions in various countries around the world. SMS unifies the culture in a common language and instills motivation for its users. There are four key process indicators enforced by SMS: downtime, efficiency, first time quality and material usage. ShawCor also has a Daily Management Process (DMP) at the start of every shift. It comprises a stand-up meeting where a team reviews the previous day's or shift's performance and employees are encouraged to engage in the daily improvement of the business and generate ideas for improvement. This process' application has been extended to include the company's operating sites and office functions.

ShawCor is currently in its ninth year of SMS. It has made significant contributions to the company's success by documenting its processes, raising the reliability of these processes, and cutting out inefficiencies within them. The company estimates its savings as a result of SMS to be $60 million. Additionally, SMS, has provided the company with a different platform of competitive advantage and differentiation, allowing ShawCor to be an effective competitor by providing on time, on budget project execution and excellent service quality in the oilfield services sector.

MARKETING/SALES

ShawCor has established a strong position in its international markets through an unwavering focus on global growth, flawless execution, technological innovation and organizational excellence. With a network of 75 modern manufacturing and service facilities around the globe, ShawCor is located in the world's primary energy producing regions and on each of the industry's growth frontiers. The industry's most advanced continuous improvement program helps the company execute complex customer projects safely, on-time and on-budget, providing superior customer satisfaction. ShawCor is continuously working to turn innovative concepts into commercial solutions for its clients' most challenging projects.

PUBLIC POLICY

ShawCor immense success in its industry stands as a testament to the key benefits of having its operations in Canada. One advantage of Canada, and specifically Toronto, is that it provides great access to a high-skilled talent workforce where the company can retain and promote talent. Canada also boasts a number of prestigious institutions focused on engineering, providing ShawCor vast opportunities to promote local talent. ShawCor also benefits from SR&ED tax credits - a federal tax incentive program that encourages Canadian business of all sizes and sectors to conduct R&D operations in Canada. Furthermore, business grants (as low as $100,000) provided by the governments of Ontario and Canada has provided crucial sustenance to ShawCor's ability to develop innovative products.

While ShawCor has acknowledged the great many advantages to being a Canadian company, it also has many suggestions for public policy improvements. ShawCor believes that there is a significant gap between what is being learned in academic institutions and what general skills are needed by manufacturing organizations. This would involve equipping future graduates with a mix of technical skills and soft skills, a combination which the company feels is lacking in the marketplace. There is currently still a lack of educational programs which provide training for these types of skills.

ShawCor presently relies on its in-house training programs and certification processes for its plant managers. These are said to be conducted at the highest level of best practices as benchmarked by other organizations. ShawCor also envisions a potential for policy change in facilitating education opportunities for market gaps and potentially create opportunities for talent development through a two-pronged approach.

The first is to integrate these skills into high school and university education as potential career choices for the younger generation. The second is to create a best-in-class program through the government that would educate employees on operation and leadership. Another notable issue that was raised involved the process of applying for government incentives. ShawCor has experienced issues where it had believed itself to have qualified for a program, even if the eligibility criteria were not sufficiently clear. ShawCor feels that there is a need for the eligibility criteria to be made clear at the outset.

In ShawCor's opinion, the future of manufacturing in Canada will be built on strength in technology and process innovation. However, there seems to be a misalignment between the capabilities built through our education system and the skills manufacturing requires. ShawCor aims to counteract the issue through their ShawCor Management System programs and initiatives, while developing the leadership required to create a culture of continuous development.

MEGA BRANDS

COMPANY PROFILE[3]

Mega Brands Inc. (Mega) designs, manufactures and markets high-quality toys and stationery products. Headquartered in Montréal, Quebec, the company has three primary manufacturing facilities: one in Montréal for its construction toy segment, one in Tennessee for stationery products and one in China for special manual processes such as hand-painted toys. Overall, Mega has a combination of offices, manufacturing facilities and distribution centres in 17 different countries, with roughly 1,600 employees, 1,000 of which are in Canada. In 2012, sales were $420 million, a 12 per cent increase over 2011. Total sales are divided 69 per cent in North America and 31 per cent in overseas markets.

Senior executive Jean François Albert, Vice President of Manufacturing, was interviewed by Jean-Louis Schaan, David Wood and Robert Thuot in Mega's Montréal headquarters on August 13, 2013.

COMPETITIVE ENVIRONMENT

The global toys and games market is showing promising growth, as it increased by 5 per cent in 2012 to reach a value of $84.95 billion, and is projected to increase to $105.8 billion by 2017. Competition in Mega's product lines is based on three factors — play experience, quality and price — and extends to the marketing and distribution of products and the acquisition of shelf space at retail.

The construction toy category, which represents the majority of the company's annual sales, is attractive to new competitors due to strong and sustained consumer demand that has made this category one of the best performers in the toy industry during recent years. The construction toy industry is similar to the fashion industry, where product life cycles are extremely short. For example, Mega's Halo toys last about three months before they need to be replaced. Mega replaces approximately 40 to 50 per cent of its sales with new products annually in order to stay competitive within the industry. The segment is highly competitive. The buying power in this market is extremely high as large corporations such as Walmart and Toys "R" Us control the buying landscape. Mega needs to compete on price in order to have any success.

Within the traditional toy industry, Mega competes with large multinational toy companies, including Hasbro Inc., Mattel Inc. and Lego, as well as many smaller U.S. and international toy designers, manufacturers and marketers. Lego is undoubtedly the greatest threat, with $4 billion in sales[4] — roughly eight times the size of Mega. Despite being up against a major competitor, Mega has been able to use this size difference to its advantage. Lego, as a large company, tends not to focus on smaller, more customized product lines, nor is it flexible with respect to special requests. Mega has exploited this gap in the market by remaining as open and flexible as possible to customers' needs. As a result, it has been able to reap the rewards of product lines that Lego had no interest in. The ability for Mega to benefit from those mid-range contracts means that it is able to successfully co-exist with Lego. Both companies are growing, so Lego is not necessarily a concern at this point.

New product lines, such as Mega's Barbie line of construction toys, have been well received and sales have greatly increased; as of 2013 Q1, the company has outperformed Mattel and Hasbro for five straight quarters in North America. In the highly fragmented Arts and Crafts category, Mega competes against many major brands, including Crayola, Play-Doh and Elmer's, as well as a large number of smaller U.S. and international companies.

3. Mega Brands Inc. (2013). Annual Information Form. SEDAR company profile database, public company documents. Available at: http://www.sedar.com/issuers/issuers_en.htm; and Lawrence Centre (2013). Future of Canadian Manufacturing case study interviews. Mega Brands Inc. Conducted on August 13, 2013.
4. MarketWatch (2013). Lego's U.S. sales soared 26 per cent in 2012. Available at: http://www.marketwatch.com/story/legos-us-sales-soared-26-in-2012-2013-02-07.

BUSINESS STRATEGIES

Mega sees itself as a Canadian company. Its preference is to stay in Montréal, but investors ultimately have a say on choosing a location that generates the highest returns, which could involve moving to the United States in the future. Mega believes that it has adapted successfully to the globalization of production through a combination of owned manufacturing facilities in North America and contract manufacturing (primarily in China).

Production at their Montréal facility has doubled since 2009 to approximately 50 per cent of annual toy sales, reflecting a shift towards just-in-time delivery to major retailers, while saving manufacturing input costs and ocean freight costs. In support of this strategy, in 2011, the company initiated a three-year program to invest $35 million to increase efficiency and production capacity by installing state-of-the-art tooling and production equipment at its Montréal facility.

Another strategy involves having in-house expertise in key processes related to manufacturing, assembly and distribution in order to get quicker turnaround on any issues Mega may face. The company feels that what makes it unique is that, unlike most competitors (with the exception of Lego), it manufactures the products it sells. As a result, Mega thoroughly understands its products, and executives are able to bring that expertise into client meetings.

One strategy Mega used to grow the business is video game licensing. The firm took advantage of the growing video game market and formed partnerships with leading games such as Halo. Today, 40 per cent of Mega's revenues come from these licensing agreements.

Due to the large number of competitors in the construction toy market, Mega has chosen a low-cost strategy in order to be successful. It has recently moved more manufacturing back to their original facility in Montréal (50 per cent of total production). There, the company is able to use state-of-the-art technology to produce toys at a cost lower than it would be in China. Mega works closely with equipment manufacturers to develop tailor-made solutions, such as high-speed, high-precision machines that can bag the parts more efficiently and economically than anywhere else in the world. In turn, the Canadian factory is also able to reduce its waste, creating even greater savings.

When these advances are combined with the fact that energy costs in Montréal are cheaper than in China, Mega is able to save a significant portion of its expenses on both the parts and the bags. This creates a great advantage for Mega because it is able to provide its suppliers with greater margins than Lego.

Another key part of the company's strategy is to have access to large pools of inexpensive labour. Many jobs are quite repetitive, leading to a 300 per cent annual turnover for the base-rate hourly employees. As a result, Mega's plants need to be established in a location with a sufficient population to support the high turnover, and Montréal's large influx of immigrants is an invaluable source of labour.

ORGANIZATIONAL STRUCTURE

Mega believes that what sets the company apart is the system in place within the firm and the organizational culture. Company culture is described as having a "make it happen," "find a way" mentality. Instructions tend to come quite directly from the top down and there is not much room for democracy.

Employees are welcome to bring ideas to the table, but they need to prove their ideas work before they get recognized. This mentality aligns with the industry, in which ideas and decisions must be formulated quickly to stay ahead of the trends, and employees simply need to get the job done. Mega has a stage-gate process to generate project ideas, develop 3-D sculpting and generate customer feedback, among other things. The company also has a Vice President of Innovation whose responsibilities include generating and searching for ideas to feed into the stage-gate method.

Within the organization, the manufacturing management team meets for one hour every week, when it reviews 10 key process indicators (KPIs) with their direct reports. Managers share information and are encouraged to bring problems to the table. If an issue needs to be addressed, a working committee is established to reach a solution.

An important influence on Mega's organizational culture comes from its biggest client: Walmart. Walmart has strict and ingrained expectations that a product should be able to be manufactured more cheaply and efficiently with each passing year. This Walmart mindset has had a positive influence on Mega's corporate culture because it continues to push the firm to be more competitive.

Mega believes it is a very efficient manufacturer, with a strong manufacturing culture. Manufacturing flexibility is a key part of its company background. Creativity is also encouraged at Mega. The company has implemented the EMPACT program, wherein every employee creates one project per year that could potentially save time, money or improve efficiency. The most promising projects are presented to top management at a two-day event. There are about 300 presentations and roughly 100 of the presented ideas are implemented.

The program is predicated on the idea that employees should not just get paid for work; they need to bring something else to the table. Employees are rewarded with increased responsibility, special invitations to conferences, etc. Mega wants employees to understand that they will be recognized and appreciated for contributing to the company's success.

One advantage of Mega's organizational structure is that the firm has its designers, brand managers, supply-chain management and manufacturing all under one roof. This makes it easy to collaborate and address any problems quickly.

SKILLED LABOUR

For Mega, Canada's openness to immigration is a positive factor. Mega has no employees recognized by the province of Quebec as official engineers, but the company estimates that roughly 100 to 150 of its employees were engineers in their native countries. The machine-handling experience these employees bring, despite not being directly related to toy manufacturing, has proved invaluable.

Immigration has given Mega access to a labour pool with high intensity and a strong quality orientation that the company believes is not available elsewhere. However, being in Montréal does present some constraints. Despite the large pool of immigrants, Mega still does not have comparably inexpensive manual labour for hand tasks such as painting. If products or components need to be hand painted, they are sent to China.

INNOVATION

Product innovation is the main growth driver in the toy industry. As a result, Mega invests 3 to 4 per cent of net sales annually to develop proprietary content and products, and to integrate popular licensed content into its product lines. Mega annually replaces approximately 40 to 50 per cent of prior year toy sales with new product lines, or extensions and enhancements of existing lines. In addition, Mega ranks among the top 100 firms in Canada in R&D, spending 3 to 4 per cent of total revenue.

One of the company's philosophies is that it wants to create and implement 100 new products annually. Half of the new products are on the design side, such as new magnetics or new joints; the other half are related to factory and manufacturing innovation. This emphasis on innovation has paid dividends, as reputable toy testers and parenting associations regularly cite Mega products for their excellence.

In Mega's Canadian plant, it has been able to optimize the designs of the part, tooling and machine specifications to reduce waste and the cycle time. This would not be possible without having the excellent coordination between manufacturing, engineering and marketing all in one location, making the choice not to outsource manufacturing key. This coordination is what has enabled the Montréal location to be so successful; very few competitors have the same ability to manage this much of the value chain. For example, Mega's Montréal facility, with the help of new machines, has 60 employees in the bagging department, whereas the company would need 4,000 in China without the use of automation.

MARKETING AND SALES

Mega sells its products directly to retailers through its own sales force as well as through commissioned sales agents, and, in certain international markets, through local third-party distributors. It does not sell products directly to consumers, choosing instead to direct shoppers to online and brick-and-mortar retailers through promotional offers and other information on its website.

Mega's goal is to become a $1 billion company. Currently, its largest markets are in the United States, Western Europe and Mexico. It is looking to emerging markets, primarily the Brazil, Russia, India and China (BRIC) markets as an opportunity for growth.

Construction toys make up 75 per cent of Mega's product sales, with the other 25 per cent coming from stationery products. In the construction toys segment, the Halo line of toys has been its most profitable product due to the fact that Mega is able to charge significantly higher margins on these licensed products. Mega's core product, Mega Bloks, has been selling at the same price for 20 years, suggesting it has endured because of its long-standing reputation as a signature product.

To gain an appreciation for final users' needs and wants, Mega organizes focus groups with children to observe them playing with various toys. The company then brings in experts to extract information from the data. This ties in to further benefits of being headquartered in a multicultural city, since the company is therefore able to test a wide variety of children for the global market.

PUBLIC POLICY

As with other leading firms, Mega believes Canada's public policy environment has some positive elements and some areas for improvement. Mega commends Canada's policy on immigration as a main reason for its success in Montréal, in large part due to access to a highly sophisticated community in the area of design.

In terms of support, Mega gets $1 million annually in R&D tax credits from the federal government (SR&ED). The firm has been trying to work with the Canadian and Québec governments to raise $50 million in loans (matched by a contribution from Mega of $50 million). The money would be used to purchase the company building, expand capacity and invest in upgrades. Other options include generous offers to move more of its plants to Tennessee (the company currently has a stationery plant there). The local government would be prepared to provide access to low-cost facilities with a 10-year exemption on both rent and property taxes. In addition, the government gives Mega a $5,000 tax credit per year per employee.

In terms of areas for improvement, Mega observes that there are notable differences between the Tennessee government and the Québec government, all the way down to the municipal level. Mega has been impressed with how committed Tennessee's government is to bringing work to the state. For example, the governor has contacted Mega directly and organized meetings to facilitate the transactions, emphasizing how engaged Tennessee government was in helping companies establish manufacturing in the state. Conversely, Mega finds that the Montréal government offers little support. Rather than growing all manufacturing, the municipal government is too narrowly focused on specific sectors, which in turn prevents companies in other industries from succeeding. The goal of government should be to promote job creation and retention in general, ahead of prioritizing one industry over another.

Furthermore, in Mega's opinion, Canada does not have adequate technical skills to meet the company's growing needs. Canada's graduates are not prepared for work in manufacturing firms. As a result, Mega relies heavily on immigration to make up the skills gap it observes.

As a general note, Mega management mentions that although the government tries to incentivize certain behaviours, it fails to give grants that are large enough to actually affect corporate decisions. In Mega's opinion, amounts ranging from $500,000 to $1,000,000 are cosmetic, and if the government wants to make a difference, it should provide a smaller number of higher-value grants.

Finally, Mega believes it is difficult to expand into international markets because firms need strong, pre-existing connections. It feels that the Canadian government has a poor support system if you are trying to make those connections and compete globally.

CANADA GOOSE

COMPANY PROFILE[5]

Established in 1957, Canada Goose Inc. manufactures high-quality, functional, down-filled outerwear across Canada Goose is foremost when it comes to producing extreme weather outerwear, with the simple goal of freeing people from the cold, no matter where they live, so they can experience more from life. The company operates some of the most technically advanced down-filling equipment in the country, providing a large production capacity.

Canada Goose markets to major retail stores across Canada, the United States and Europe, as well as servicing some 300 independent accounts (both retail and industrial) throughout North America, Europe and Asia. Canada Goose has set itself apart from the competition by making authentic outerwear that's designed for the people who live and work in the world's coldest environments and harshest elements. The company currently distributes apparel in more than 50 countries worldwide.

COMPETITIVE ENVIRONMENT

The apparel industry is quite seasonal, with the bulk of profits arising during the fall and winter months. The competitive landscape has changed greatly in recent decades. Competitors once viewed the made-in-Canada label as unattractive and subsequently moved production offshore. Canada Goose chose to stay in Canada and this competitive strategy has proven extremely successful. And while retailers in Europe, primarily Scandinavia, immediately understood and valued the connection between an outerwear company and a made in Canada commitment, Canadian retailers took longer than other international distributors to identify with the Canada Goose brand.

Canada Goose's largest competitors are Moncler (from Italy) and North Face (from the United States). Canada Goose uses a field-testing approach to measure the quality of fabric and insulation and overall performance, as well as temperature testing in a technical facility in Québec, and also uses employee evaluations to critique new apparel. This approach has proven effective with the company's move into the lightweight down category, where it redesigned its innovative HyBridge™ line of jackets which can be used in more moderate climates and for more active pursuits.

BUSINESS STRATEGIES

Canada Goose delivers an authentic product that has a rich history and a great Canadian story. The company's competitive strategy is to enter markets with the highest quality product possible, or not at all. Its belief is that functionality comes first, with fashion coming second. Canada Goose produces made-in-Canada goods, although materials are sourced globally.It has implemented this strategy by acquiring sub-contracted manufacturing facilities. Most Canadian textile factories are often in need of work, so Canada Goose can select the ones it wishes to employ and may acquire the factory, if necessary, in order to maintain a high-quality product. The firm also recently moved into a larger, more modern Toronto manufacturing facility which has doubled capacity, and has increased capacity in the Winnipeg facility as well, earning a leadership position in helping to rebuild the apparel manufacturing industry in Canada.

Contracted facilities produce Canada Goose apparel, with most work involving hand sewing. Employees at sub-contracted facilities are trained by Canada Goose representatives on how to specially make the company's products.

5. Dani Reiss, President and Chief Executive Officer, was interviewed by Jean-Louis Schaan, David Wood and Brook Coatsworth in the company's Toronto, Ontario headquarters on October 15, 2013.

In turn, Canada Goose takes on the working capital of sub-contracted manufacturing facilities because seasonal businesses have increased risk, inventory issues and many sunk costs.

The relationship that Canada Goose has with the Canadian textile supply chain adds value to its distribution, and is stronger than its competitors due to the fact Canada Goose kept production in Canada when others went overseas. Operationally, investing and building infrastructure ahead of the anticipated growth has been key to the company's success.

As for international markets, Canada Goose opened a new sales office (U.S. headquarters) in Denver, Colorado in 2013 to take advantage of the rapidly growing U.S. market and better serve customers. The company is currently working on its China market strategy. Joint ventures with Chinese state-owned enterprises to generate a pure distribution channel seem to be the ideal model. Although the market in Europe has grown rapidly over the last five years, there is still room for significant growth.

ORGANIZATIONAL STRUCTURE

Canada Goose attracts intelligent people and provides training that focuses on the entrepreneurial spirit of the firm. The culture is very dynamic, with a fun and energetic atmosphere that breeds creativity and innovation.

Canada Goose believes that culture comes from the top, so the President works diligently to travel between locations to meet with the teams there, tackle any local issues and build relationships. The management style is hands-off, with a top-down approach from head office. The mentality is that nothing should be taken for granted, and that every detail should be managed to ensure quality products and premium service.

Canada Goose has a sourcing and procurement team and a product development team. Each team looks for innovative products individually. U.S. operations are managed by U.S. employees out of the Colorado office. In Europe, different distributors have been recently acquired by Canada Goose in order to expand the business and maintain the culture.

SKILLED LABOUR

Employees consist primarily of immigrants from China, Vietnam and the Philippines. Extensive training programs exist for Canada Goose employees to ensure high-quality jackets are being made. The labour force is committed to the firm and country and they are proud to make Canadian goods.

INNOVATION

Canada Goose invests heavily in manufacturing capabilities. It has also invested in high-quality down materials to provide superior insulation compared to other products. This has led to innovative products such as the new HyBridge and HyBridge Lite jackets, which were developed through proprietary designs.

Despite a push toward advanced automated equipment to make the jackets more efficiently, the quality is simply not equivalent to hand-sewn garments and Canada Goose is not willing to compromise. Some welding and machining is used to improve sewing machines but hand craftsmanship is key to jacket quality.

Canada Goose recognizes that it is not a leader in the market with respect to process innovation, but there is no need to focus on creating a new way to sew jackets. In terms of product innovation, the sizes and fits of the jackets have been adapted according to market demand from varying jurisdiction. For example, the company recently introduced the "Fusion Fit" to meet the demands, primarily from Asia, for shorter and slimmer styles.

MARKETING AND SALES

Marketing and selling of the product are among Canada Goose's greatest strengths. Canada Goose's sales strategy is to emphasize the fact that their jackets are not a commodity. Most competitors manufacturing apparel in China do not care about the end product, simply focusing on mass production and cost cutting. Instead, Canada Goose focuses on telling authentic stories through creative channels, with a strong emphasis on grassroots marketing. The brand cannot be replicated and has a significant amount of weight among consumers. Canada has a reputation as a cold weather country so naturally, there is trust by association.

PUBLIC POLICY

Canada Goose has a number of views on the public policy environment. The Canadian government has been the largest and most important client. Arctic research projects support the made-in-Canada brand for extreme cold weather apparel. The positive aspect of doing business in Canada is that Canada has a thriving domestic economy and is well positioned in the global economy.

Canada's hard-working culture benefits the manufacturing sector; conversely, it can be difficult dealing with the European work environment (extensive social services, long holiday periods) and/or poor Chinese operations (few rights, no social services). Furthermore, the country's multicultural population pays huge benefits (such as attracting qualified immigrants), especially in the Greater Toronto Area.

Free-trade agreements with Europe and Asia would greatly help the firm's growth plan. Countries such as Japan have high duties for imported apparel and better trade agreements would help alleviate a large cost for Canada Goose. Canada Goose believes that historically, Canada has done a poor job of stopping counterfeited goods from entering the country unless goods are identified as fake well in advance of crossing; however, Bill C-56 aims to address some of these issues.

The company further asserts that improvements to immigration policies would greatly help the manufacturing sector — for example, implementing policies that would attract experienced sewers to help rebuild the once thriving Canadian textile industry.

ANALYSIS

In each of the above cases the focus of the organization is to gain scale by going global. Each firm strives toward scale through market access, building flexibility and agility to meet the needs of foreign markets and developing an integrated value chain for competitive differentiation.

All firms emphasize niche markets and pursue a differentiation strategy. The differentiation could be achieved through product, process innovation or service. Execution through strong leadership, 'can-do' cultures, innovative management systems and skilled workforce are similar across companies. The focus is clearly on the customer and a cultural appetite to listen, be flexible and deliver on the customer promise.

The three firms also share a view that an integrated approach to both product and process innovation is critical to success. All three businesses sell both a product and service, but it is primarily the service that differentiates them from competitors.

As a result, product and process innovation are critical components of each company's respective strategy. In many cases, the innovation and competitive offering are hard to differentiate between a product and service. Finally, each firm is eager to embrace advanced manufacturing methods and invest heavily in new technologies, expand capacity and advance automation.

PUBLIC POLICY PRIORITIES

All firms agree that being Canadian has advantages, including political and economic stability, favourable tax environment, income taxes and repatriation of profits, access to higher education, and access to immigrant workers.

Yet there are challenges: ambiguity in government programs' expectations; high turnover in government personnel; and support needed in training skilled personnel, including problem solving in high-school and trade knowledge in colleges. Immigration is important in that it provides a labour force with skills and interest in manufacturing employment.

Finally, leading firms believe that government should actively encourage global expansion by Canadian manufacturers. Through Export Development Canada and the Department of Foreign Affairs, government can provide financing and support access to foreign jurisdictions.

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Jean-Louis Schaan is the Donald F. Hunter Professor of International Business and the Faculty Director of the Ivey Executive Program (IEP). Previously, he was Director of the University of Ottawa's Executive MBA Program. Over the past 20 years, he has served on the boards of directors and advisory boards of several Canadian firms.

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His interests include developing operational processes in a broad range of industries, applying strategy to logistics and supply chain management and establishing operations management as a fundamental tool for business excellence.

ABOUT THE LAWRENCE CENTRE

The Lawrence National Centre for Policy and Management aims to bridge the gap between business strategy and government policy by providing a forum for business and government to discuss policy development and implementation.

As a policy and management centre within a world-class business school, the Lawrence Centre is uniquely positioned to explore the areas of public policy that have the greatest impact on business. The Lawrence Centre educates future business leaders in public policy and government leaders in business strategy and conducts leading-edge research on major issues that involve business-government coordination.

The Centre was established in 2001 with a generous gift from Canadian businessman, Jack Lawrence, HBA '56, who was a strong proponent of business playing an active role in Canadian public policy.

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