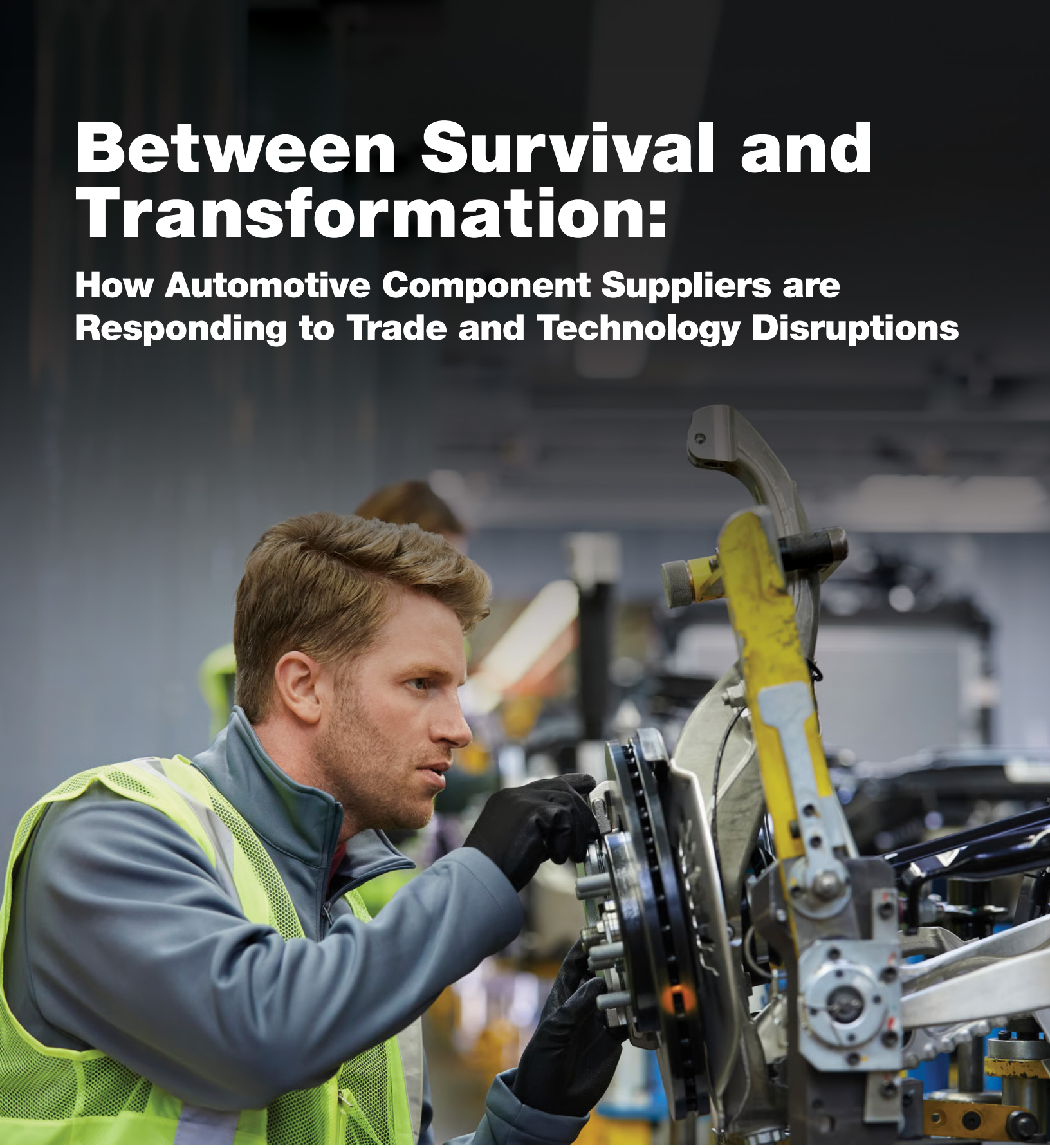
Between Survival and Transformation:

How Automotive Component Suppliers are Responding to Trade and Technology Disruptions



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Lawrence National Centre
for Policy and Management

Survey Report
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Between Survival and Transformation:
How Automotive Component Suppliers are Responding to Trade and Technology Disruptions

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Key Highlights

- The Canadian automotive component sector is operating in a period of heightened uncertainty driven by tariffs, Canada–United States–Mexico Agreement (CUSMA) ambiguity, and EV-transition volatility tied to shifting U.S. policy and delayed OEM investment.

- An in-depth survey of 28 Ontario-based automotive component manufacturers—mostly SMEs—shows that smaller firms are especially exposed because of weaker financial buffers, limited bargaining power, and dependence on narrow customer bases.

- A striking 68 per cent of surveyed firms reported declining automotive revenues, with over half experiencing drops greater than 10 per cent.

- Despite this contraction, most firms remain profitable or at break-even through aggressive cost management, with losses concentrated among highly automotive-dependent SMEs.

- Most firms are relying on defensive short-term responses—especially labour cuts, delayed investment, and cost absorption—that may support near-term survival but offer limited pathways to long-term resilience and growth.

- Diversification beyond automotive remains limited, but where it has occurred it followed capability-based pathways into adjacent sectors such as aerospace, mining, defence, agriculture, and medical equipment.

- Overall, the evidence suggests that while current firm responses are largely defensive, selective diversification offers a more promising long-term pathway to resilience and growth—provided firms can build organizational ambidexterity, new capabilities, and access to targeted external support.

- Governments already support auto parts firms—but current programs are fragmented, and diversification into adjacent industries remains under-supported.

- The report proposes a three-part policy framework: prioritize and sequence support to connect stabilization with longer-term adjustment; improve coordination and navigation across fragmented provincial and federal programs; and strengthen capability upgrading, partnerships, and new market linkages for firms pursuing viable adjacent industries.

- Not all firms will diversify, nor should they—but with the right conditions, today's uncertainty can become the foundation for a stronger, more resilient, and more competitive manufacturing base.

Executive Summary

The Canadian automotive component sector has been operating in a heightened and uncertain trade environment since the new U.S. administration took office in early 2025. Firms remain exposed to a range of U.S. trade measures affecting both finished vehicles and critical inputs, including the 25 per cent U.S. tariff regime on automobiles and trucks and tariffs of up to 50 per cent on steel, aluminium and related products. While Canada–United States–Mexico Agreement (CUSMA)-compliant auto parts are currently exempt from the U.S. 25 per cent automotive tariff, suppliers remain exposed to higher input costs and continued uncertainty around tariffs, sourcing arrangements, production, and investment decisions across the North American supply chain. Trade tensions continued to evolve as Canada–United States negotiations broke down in August and remain stalled. New U.S. Section 338 tariffs of up to 50 per cent, followed by Canadian counter-tariffs of up to 50 per cent and subsequent U.S. import restrictions on selected Canadian products, have further escalated the trade dispute.

At the same time, changes in U.S. policy toward electric vehicles have added another layer of uncertainty to EV adoption and investment decisions, contributing to a more volatile outlook for planned OEM investments and the broader transition in North American vehicle production. Together, these developments continue to shape a challenging operating and investment environment for Canadian automotive suppliers, with firms navigating changing tariff regimes, stalled trade negotiations, and shifting North American vehicle production strategies.

These combined pressures are expected to disproportionately affect smaller component manufacturers, given their weaker financial buffers, limited bargaining power, and dependence on a narrow customer base. However, there is limited systematic evidence on firm exposure, responses, and strategic adjustments in this evolving environment. To address this gap, this report presents findings from a targeted survey of automotive component manufacturers, providing insights into firm-level experiences and responses.

▶ **Survey.** The report draws on an in-depth survey of 28 automotive component manufacturers operating in Ontario, Canada. The survey examines firms' product portfolios, market exposure, financial performance, and strategic responses to heightened trade uncertainty and industry disruption. The survey was designed to provide depth rather than serve as a rapid pulse check: questionnaires took approximately 30 minutes to complete, enabling a more detailed assessment of firms' experiences and responses. The sample is primarily composed of SMEs, reflecting the broader structure of the sector, with firms deeply embedded in North American automotive supply chains: 93 per cent sell to Canada and 89 per cent to the United States.

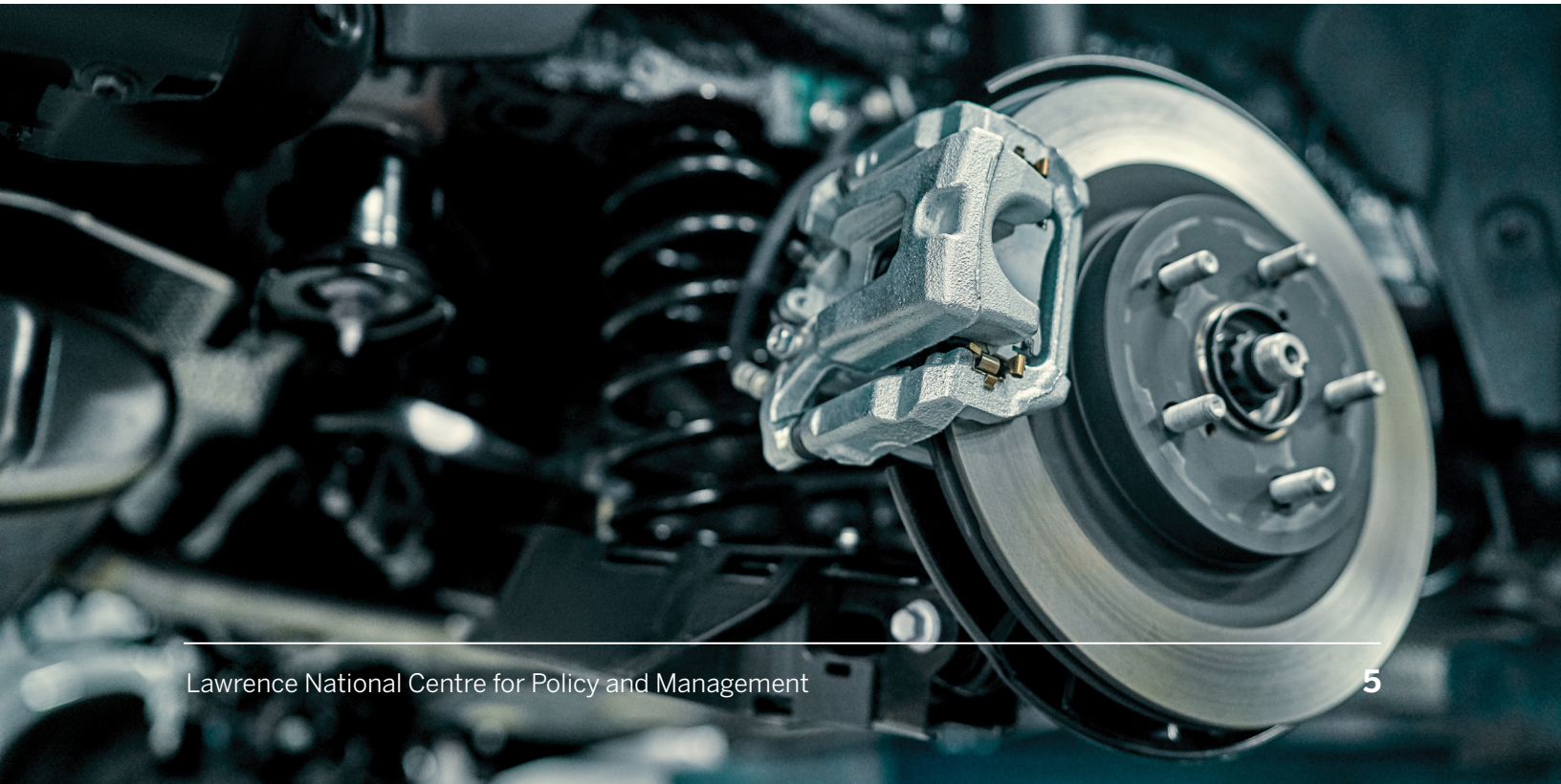
▶ **Revenue contraction.** A majority of surveyed firms (68 per cent) reported declining automotive revenues, with more than half experiencing declines exceeding 10 per cent, underscoring the depth of contraction facing them. Yet, most firms surveyed report remaining profitable or at break-even, largely due to aggressive cost management and operational adjustments. Loss-making firms are relatively few and are concentrated among highly automotive-dependent SMEs.

▶ **Firm Responses.** Firms in the sample report adopting a range of short-term adjustment strategies to maintain viability:

- Labour cost reductions (50 per cent of the sample), concentrated among smaller firms with tighter liquidity constraints.
- Postponement of capital investment (over 50 per cent of the sample), a broadly shared response across firm sizes
- Cost absorption (nearly 50 per cent of the sample), more common among larger OEM-facing suppliers
- Supplier switching (36 per cent of the sample), primarily among larger firms with greater sourcing flexibility
- Limited price increases (18 per cent of the sample), reflecting weak pricing power in buyer-driven supply chains

These responses highlight firms operating under constrained margins, where they prioritize survival and customer retention over pricing power or expansion. Crucially, these adjustments are largely defensive in nature. While they stabilize short-term financial performance, they risk weakening long-term competitiveness by limiting investment, innovation, and capability upgrading—particularly among SMEs.

Many surveyed firms report actively seeking new customers (64 per cent within Canada; 54 per cent outside Canada). However, considering their declining revenues such initiatives have not been sufficient to offset current financial pressures. Customer expansion appears to represent a reactive strategy within a contracting market rather than a source of new growth.



▶ **Industry diversification challenges.** Nearly one-third of surveyed firms (29 per cent) expanded into a non-automotive market over the past year as conditions in the automotive sector deteriorated. While diversification is often perceived as costly—with firms citing investments in training, equipment, and product development as key barriers—those that successfully diversified were less likely to view these costs as prohibitive. This suggests that diversification outcomes are shaped not only by firm size and resources, but *also by managerial perceptions, opportunity recognition, and the ability to identify viable adjacent markets.*

Firms that entered such new product markets reported consistently higher needs for support in funding, skilled labour, networking, partnerships, and policy advocacy. This reflects the resource-intensive nature of diversification, which requires upfront investment, workforce development, and access to new customers, supplier networks, and industry knowledge beyond established automotive markets.

▶ **Ambidexterity and diversification.** Surveyed firms already operating in non-automotive industries were more likely to diversify into a new industry over the last year, suggesting that diversification builds capabilities and networks that can make subsequent expansion relatively easier. Moreover, firms that entered new product markets appear better able to balance the demands of their core automotive business while exploring new opportunities—an indication of organizational ambidexterity, which is likely to be a critical capability for building resilience and growth in a period of sustained industry disruption.

▶ **Industry adjacencies.** We find that diversification is not random but follows clear technological and capability-based proximity. Examining firms that reported diversification activity at any point in their history, we find that these expanded into aerospace, mining, defence, agriculture, and medical equipment by leveraging their existing engineering and production capabilities. Mining and defence are especially important destinations for firms producing structural and powertrain-related components such as engines, metal body parts, and steering and suspension systems, where overlap exists in durability requirements, precision engineering, and heavy-duty performance conditions. Aerospace represents a more selective pathway, concentrated among firms with high-precision capabilities in engine and metal components that meet stringent safety and material standards. By contrast, agriculture may provide a more accessible entry point, particularly for manufacturers of plastic body and interior components, where lower certification barriers and greater design flexibility facilitate adaptation of existing production capabilities.

▶ **Defensive adjustments vs. strategic repositioning.** Our analysis examines the long-term viability of automotive component manufacturers through four strategic responses: cost cutting, cost absorption, relocation, and diversification. Cost cutting—mainly labour reductions and deferred investment—is most common among smaller firms with limited financial buffers, offering short-term survival but risking longer-term erosion of capabilities and competitiveness. Cost absorption is more prevalent among larger OEM-facing suppliers, which can withstand margin pressure but face declining profitability and constrained reinvestment, making it a constrained adjustment rather than a growth strategy. Relocation to the U.S. or Mexico remains rare and largely limited to already cross-border firms, reflecting high fixed costs, deep supply chain embeddedness, and continued exposure to uncertainty even after moving. Overall, these three responses are largely defensive and incremental rather than durable pathways to resilience in a structurally uncertain environment.

A potential route to long-term resilience and growth is diversification into non-automotive industries. While entry into new sectors is demanding, and involves substantial execution risks (new technologies, certification regimes, and customer requirements), it creates strategic optionality in an environment of persistent trade uncertainty and automotive sector disruption. This is increasingly relevant as defence, aerospace, mining, and agriculture expand, generating demand for advanced manufacturing capabilities that align with automotive engineering strengths. However, diversification requires firms to balance efficiency in their core business with sustained investment in learning and capability building in new sectors—an ambidextrous capability that is particularly difficult for smaller firms. Because much of the relevant knowledge is tacit and embedded in industry routines, partnerships, customer-linked learning, and relational knowledge transfer are critical.

▶ **Policy priorities.** Resuming trade negotiations and preserving CUSMA provisions for the automotive sector should remain an important policy priority, as stable access to the U.S. market remains central to both the sector and Canada's broader manufacturing base. At the same time, continued trade uncertainty and signs of U.S. reshoring strengthen the case for Canadian SME suppliers to explore adjacent industries and alternative customers. In this context, diversification serves as an option-preserving strategy, helping firms build capabilities, relationships, and market opportunities before adaptation becomes more urgent.

Governments already provide an important base of support for automotive component manufacturers through modernization programs, tariff-response financing and broader industrial strategy. However, the policy challenge is not simply whether support exists, but whether it is sufficiently coordinated, accessible, and well matched to the practical requirements of adaptation and diversification into adjacent industries. For firms facing prolonged uncertainty, the problem is rarely a single missing input; rather, it is the need to combine financing, technical upgrading, certification, market intelligence, customer access, and strategic guidance at the same time.

This report develops a framework around three policy priorities for creating enabling conditions for long-term adaptation. The objective is not to presume that diversification is appropriate for all firms. Rather, the aim is to create conditions under which aspiring SMEs can pursue viable industry adjacencies—including in sectors that governments are themselves prioritizing for nation building and industrial development—while strengthening the sector's longer-term resilience and competitiveness.

A **first policy priority** is to **prioritize and sequence support** by building a more explicit adaptation and diversification stream onto existing supports so that viable firms can move beyond short-term cost containment toward productivity-enhancing investment, customer development, and entry into adjacent markets. The objective is not to shift policy away from automotive production, but to preserve support for core competitiveness while creating pathways for firms to broaden their strategic options.

A **second policy priority** is to **improve coordination and navigation across existing supports**. Current programs are dispersed across provincial and federal institutions, operate on different timelines, and apply different eligibility rules, making it difficult for firms to assemble complementary supports into a coherent adjustment strategy. This suggests the need for stronger coordination across delivery agencies, clearer referral pathways, and a more effective advisory or "single-window" navigation function for SMEs. Policy effectiveness depends not only on the existence of programs, but on whether firms can realistically identify, access, and combine them under conditions of uncertainty and managerial strain.

A **third policy priority** is to **strengthen capability upgrading and new market linkage** more directly. Firms entering adjacent industries typically require support with testing, certification, regulatory compliance, and customer qualification, as well as with developing managerial acumen to pursue new opportunities while maintaining the core automotive business. A targeted market-entry stream combining these supports would reduce key barriers to diversification. At the same time, diversification depends on more than internal capability. Entering a new industry often also means entering a new supply chain, where customer relationships, sector-specific requirements, and tacit knowledge are often learned through partnerships, repeated interaction, and proximity to established actors. This points to a role for stronger cross-industry networks, supplier-buyer matchmaking, partnership mechanisms, and more strategic use of procurement to reduce first-customer risk in adjacent sectors such as defence and major projects.

Bottom line:

The Canadian automotive component sector is navigating a period of sustained uncertainty driven by trade tensions, shifting demand patterns, and technological transition. While most firms surveyed have maintained short-term financial stability through cost adjustments, these responses are largely defensive and do not ensure long-term resilience. A potential pathway forward lies in selective diversification into adjacent industries, supported by organizational ambidexterity and targeted external support. However, without enabling conditions—financial, institutional, and managerial—the sector risks remaining locked into incremental adjustment rather than transformative growth. If governments can better prioritize support, reduce fragmentation, and connect firms to the capabilities and relationships needed for diversification, today's uncertainty can be turned into an opportunity to lay the foundation for a stronger, more adaptive, and more competitive manufacturing base.

Survey Sample Characteristics

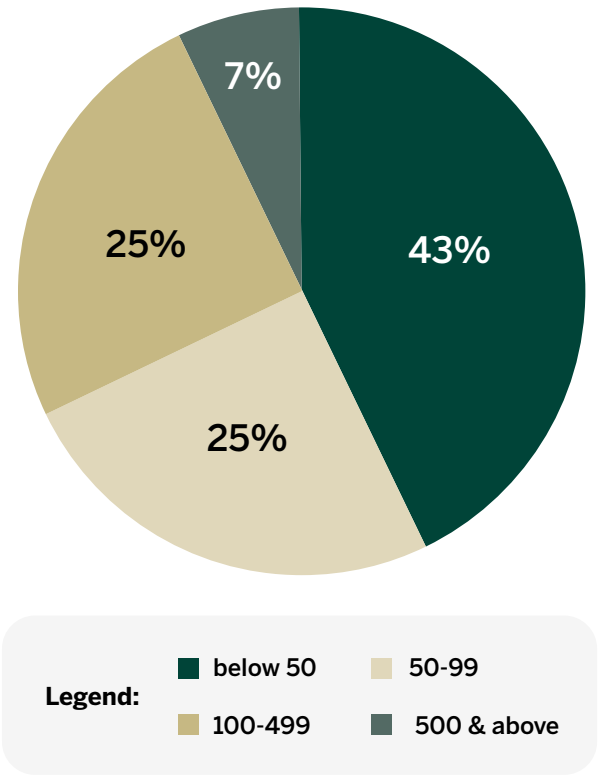
The survey consisted of 21 questions organized into four sections: business profile, production-related issues, tariff impacts, and strategic initiatives and support measures. The survey was designed to take approximately 25–30 minutes to complete.

Data collection took place between March and May 2026 and targeted automotive component manufacturers operating in Ontario, excluding large Tier 1 suppliers. A total of 28 firms completed the survey, all of which met the study's eligibility criteria of having automotive parts manufacturing as a core business activity and maintaining operations in Ontario, Canada.

Following data collection, the survey responses were reviewed for duplicate submissions and inconsistencies. After data cleaning and validation, the finalized dataset was used for the analysis presented in this report.

Most firms in the sample are small or medium enterprises or SMEs (Figure 1): 43 per cent have fewer than 50 employees, 25 per cent have between 50 and 99 employees, and 25 per cent have between 100 and 499 employees. Only 7 per cent of firms are large (i.e., 500 employees or more). This distribution is consistent with the broader industry structure and aligns with the focus of the analysis, as SMEs are generally expected to be more vulnerable to economic shocks.

Figure 1. Firms by employee size



The graph shows the percentage of firms in the sample by employee size

While the survey captures firms' perspectives at a particular point in a rapidly evolving trade environment, with data collection completed in late spring 2026, the subsequent breakdown and continued stalling of Canada–United States trade negotiations, along with additional tariffs and trade restrictions, suggest that trade uncertainty is likely to persist and reinforce many of the pressures identified by respondents. More recent developments also point to the potential for longer-term changes in North American supply-chain structures. For example, Ford, JPMorganChase, and the State of Michigan recently launched Michigan LIFT, a public-private initiative aimed at strengthening domestic supply-chain capacity and scaling production in Michigan. Such developments underscore the value of identifying new diversification pathways for Canadian automotive component manufacturers, which remains a key message of this report. The findings of the report are therefore increasingly relevant in an environment where trade uncertainty may have longer-term implications for sourcing decisions, supplier relationships, and the geographic configuration of North American automotive supply chains.

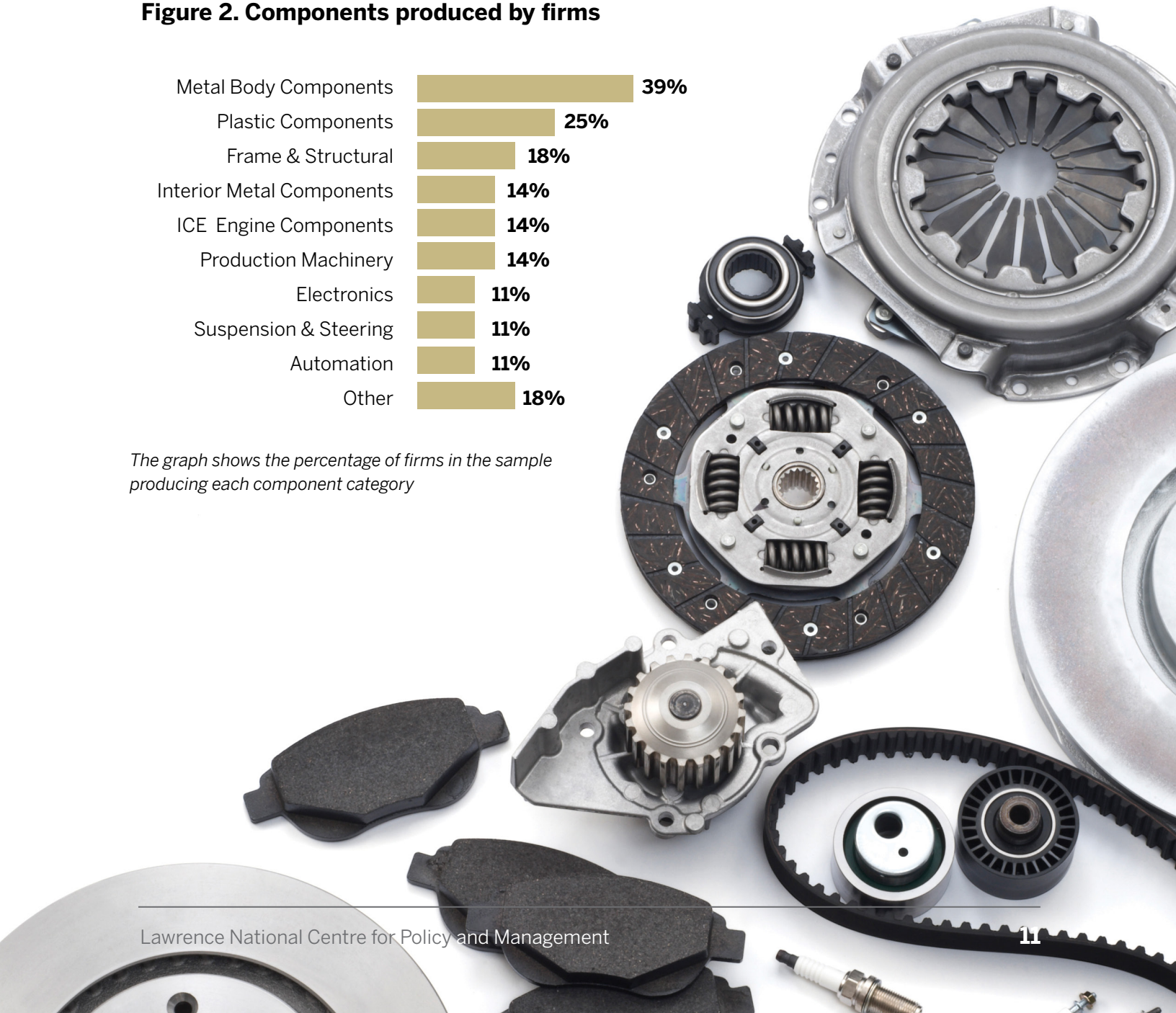
Automotive Components Focus

All surveyed component manufacturers produce parts for internal combustion engine (ICE) vehicles, while 71 per cent (20 out of 28) report that they also manufacture components for both ICE and electric vehicles (EVs). This partly reflects the presence of firms producing technology-agnostic components that can be used across powertrains, as well as others that have invested in production lines for both ICE- and EV-specific parts (Figure 2). Nevertheless, ICE-only suppliers and those that also produce EV components do not differ systematically in key performance measures, such as revenues.

The types of components produced by respondents varied widely, ranging from metal body components (39 per cent), plastic components (25 per cent), and frames (18 per cent), to a smaller number of firms reporting production of engines, suspension and steering systems, and automation and electronic components. Note, some firms operate across multiple component categories. Additionally, a few firms indicated that they manufacture production machinery and automation equipment used by automotive manufacturers, placing them within the broader allied industry rather than direct parts production.

About 43 per cent of respondents indicated that they sell exclusively to original equipment manufacturer (OEM) parts producers, while 46 per cent sell exclusively to non-OEM (Tier-1 and Tier-2) component producers. The remaining 11 per cent reported selling to both OEM and non-OEM customers.

Figure 2. Components produced by firms



The graph shows the percentage of firms in the sample producing each component category

Geographical and Industrial Scope

As would be expected, component manufacturers in our sample sell their products primarily in Canada and the United States (Table 1)—93 per cent to Canadian customers and 89 per cent to U.S. customers, with a large share (82 per cent) selling to both markets. Beyond the U.S., Mexico is the second most important export destination for manufacturers, reflecting CUSMA integration. In fact, half of the firms in the sample report sales to Mexico; however, these exports tend to account for a relatively small share of total revenues.

Only five firms reported automotive revenues from non-CUSMA countries, which is partly driven by diversification into adjacent product lines such as mining equipment, consumer goods etc., which we turn to next.

Table 1. Geographic distribution of firms' markets

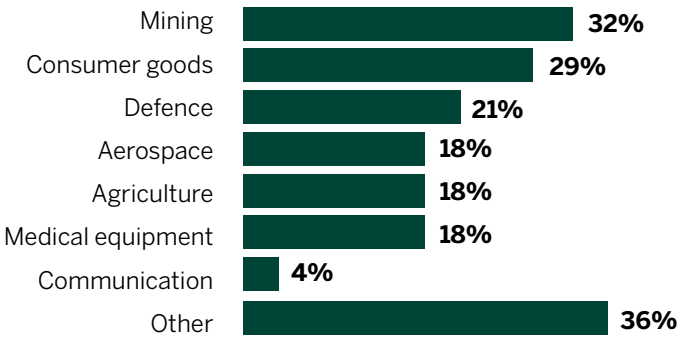
Count of respondents per country share in sales				
% sales	**US**	**Canada**	**Mexico**	**Other**
100%	1	3	0	0
75-99%	5	3	0	1
50-74%	8	7	2	0
25-49%	7	4	3	0
1-24%	4	9	9	4
Total	**25**	**26**	**14**	**5**
Average	44%	42%	10%	4%

The table shows the number of firms selling in Canada, US, Mexico and Other by % of sales in each market.

While all firms in the sample produced automotive components, 61 per cent also served at least one other industry (Figure 3). Specifically, 32 per cent of firms reported manufacturing goods for the mining sector, 29 per cent for consumer goods, 21 per cent for defence, 18 per cent for aerospace, and 18 per cent each for agriculture and medical equipment.

Among firms serving the defence sector, defence-related revenues typically accounted for only 5 per cent to 20 per cent of total revenues. Aerospace revenues for firms active in that segment were generally limited. However, four firms in the sample were highly diversified, with non-automotive industries accounting for more than 50 per cent of their revenues. Even in these cases, automotive products still represented a significant share of overall sales.

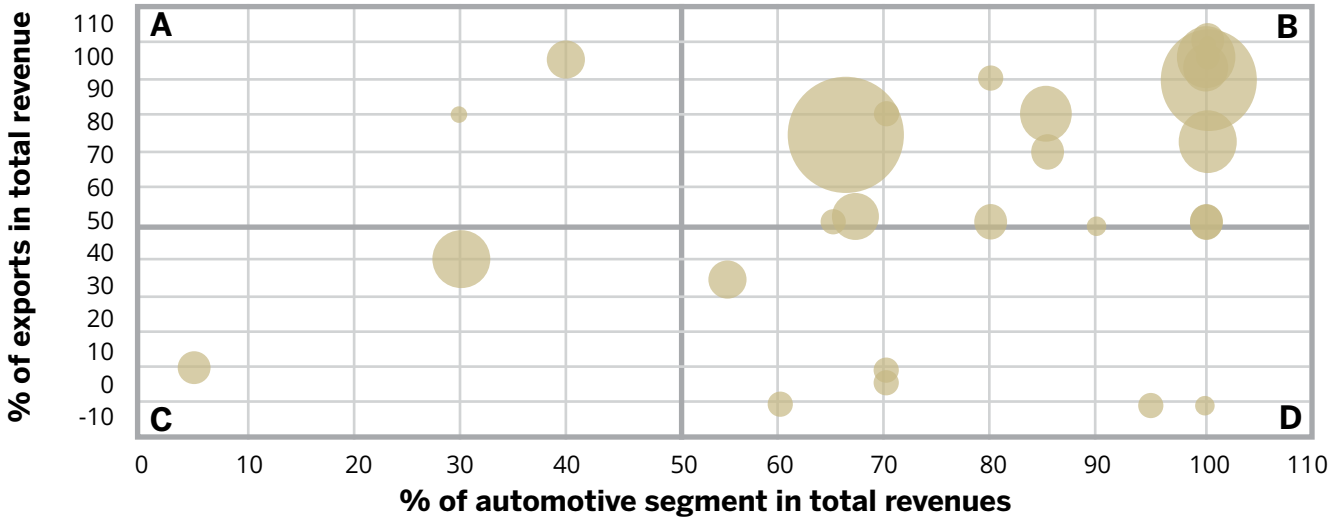
Figure 3: Firms' industry diversification



The graph shows the percentage of firms that also produce non-automotive products, by industry.

Figure 4 shows the relationship between firms' share of automotive revenues (x-axis) and share of revenues from exports (y-axis), with each circle representing a firm, and circle size proportional to the firm's number of employees.

Figure 4. Firms' geographical (% exports) and industry (% auto revenue) footprint



The graph plots automotive revenue as a share of total firm revenue (x-axis) against exports as a share of total revenue (y-axis)—i.e. the percentage of revenue generated outside Canada. Each circle represents a firm, and circle size is proportional to the number of employees.

Most firms derive more than 50 per cent of their revenues from automotive activities (quadrants B and D), reflecting the sample construction, which intentionally focuses on automotive component manufacturers. Firms that are more export-oriented (quadrant B) tend to be larger in terms of employment. This is consistent with broader empirical literature, which generally finds that exporting firms are larger, and also tend to be more productive than non-exporting firms.

Financial Impact

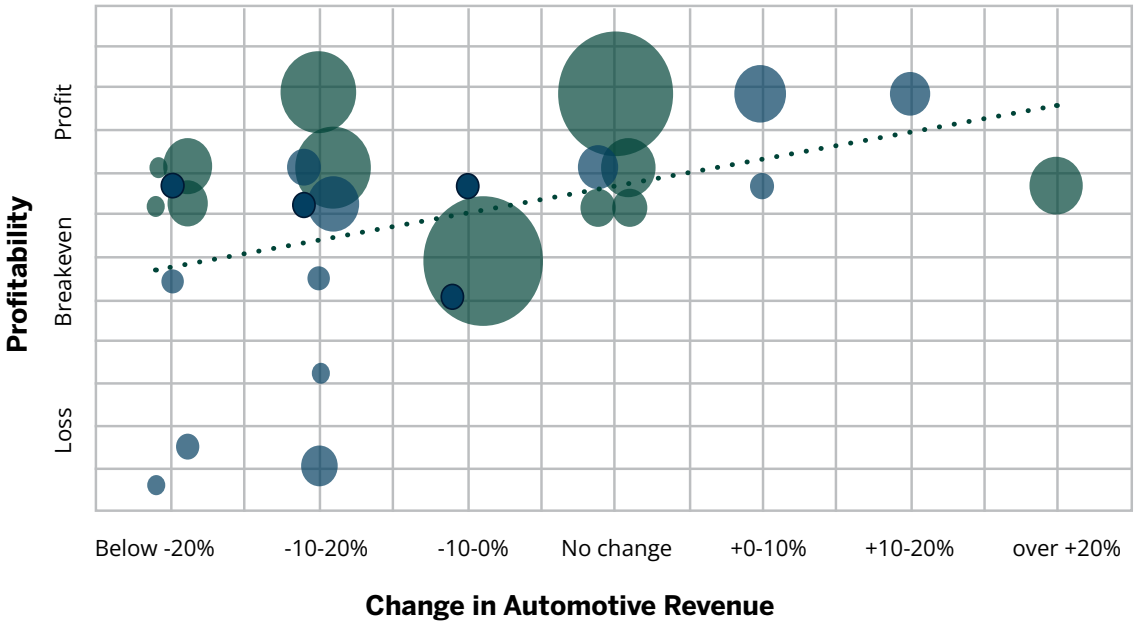
Highlight: *Most surveyed firms report reduction in revenue, with geographic diversification offering little protection as automotive supply chains on both sides of the border contracted simultaneously; but they nevertheless maintained profitability or break-even performance, suggesting active cost management and operational adjustments.*

The survey also elicited information on firms' revenue growth and profitability over the previous 12 months, a period marked by continued uncertainty surrounding U.S.–Canada trade relations. Figure 5 examines the relationship between firms' automotive revenue growth and profitability status (loss, break-even, or profit).

A striking finding is that 68 per cent of firms reported declining automotive revenue, while 18 per cent experienced little to no change. Moreover, the majority of firms (57 per cent of the sample) reported overall revenue declines exceeding 10 per cent, signaling a broad contraction within the sector. This pattern is consistent with data on weakening manufacturing activity in Ontario through 2024 and 2025, with the automotive components sector experiencing particularly pronounced impacts.[1]

[1] https://www.ontario.ca/page/ontario-economic-accounts

Figure 5. Firms' automotive revenue and profitability over the last 12 months



The graph plots year-over-year changes in firms' automotive revenue (x-axis) against profitability status (profit, break-even, and loss; y-axis) over the past year. Each circle represents a firm, with size proportional to the number of employees. Green bubbles indicate firms with non-Canadian revenues exceeding 50%.

Several forces appear to underlie these dynamics. First, as some assembly operations were shuttered and planned investments postponed in Canada, component manufacturers serving domestic supply chains were negatively affected. Second, firms integrated into U.S.-bound supply chains also generally experienced revenue declines, as U.S.-based OEMs continued to pursue supplier localization strategies. Importantly, this suggests that traditional geographic diversification across the U.S. and Canadian markets did not provide meaningful insulation in this period, as both markets were simultaneously affected by synchronized restructuring pressures.

However, outcomes were not uniform across segments. Some ICE engine component manufacturers exporting to the U.S. appear to have experienced revenue growth, likely reflecting a relative shift in U.S. OEM demand back toward internal combustion engine production amid a slowdown in EV adoption and the rollback of EV incentives and infrastructure programs in the United States. In addition, one firm involved in automation solutions for automotive manufacturing reported revenue growth. Firms serving non-U.S. OEMs (Honda and Toyota) were also expected to fare relatively better, as they were less exposed to restructuring pressures than their counterparts serving North American supply chains.

Despite revenue declines across many firms, most component manufacturers report that they have remained profitable or at least at break-even, suggesting active cost management strategies to maintain financial viability. The small number of firms reporting losses all experienced substantial revenue declines and were highly concentrated in automotive-related revenues, suggesting l imited diversification opportunities to offset weakness in their core markets. Even among these firms reporting losses, respondents indicate that they are actively undertaking cost containment measures. We turn next to these adjustment tactics.

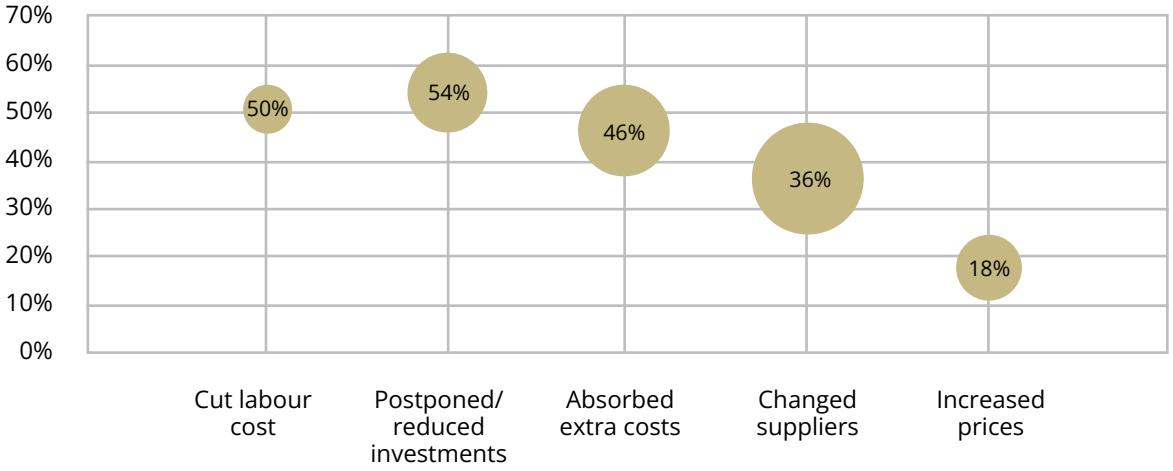
Firm Responses: Tactics to Cushion the Blow

Highlight: *Our findings reveal that, faced with declining revenues and rising costs, surveyed firms prioritized preserving cash and protecting customer relationships rather than raising prices, relying on workforce reductions, investment postponements, cost absorption, and supply chain adjustments; yet important asymmetries emerge: larger firms are more likely to reconfigure operations and supply chains with greater flexibility, while smaller firms face tighter constraints in adjusting to sustained pressures.*

Our survey sheds light on several tactics that component manufacturers have deployed in response to the current trade environment. These tactics also appear to vary by firm size. Figure 6 presents five commonly reported responses to revenue pressures: reducing labour costs, postponing or scaling back investments, absorbing additional costs, changing suppliers, and increasing prices.

▶ **Cutting labour costs.** Half of the firms in the sample reported reducing employment over the past year. These firms tend to be smaller in size, reflecting the greater vulnerability of small manufacturers to revenue shocks and rising costs. Unlike larger firms, small firms typically have fewer financial reserves, more limited access to external financing, and less flexibility to absorb short-term declines in demand. As a result, labour costs—which often represent one of their largest controllable expenses—become an immediate lever for preserving cash flow and maintaining profitability.

Figure 6. Firms' responses to revenue pressures



The graph shows % of firms reporting each of the five adjustment strategies used to maintain financial viability. Circle size is proportional to the average number of employees among firms that reported adopting the respective strategy.

▶ **Postponing capital investments.** A little over half of the firms in the sample reported postponing or reducing investments in response to declining revenues and heightened uncertainty. Unlike workforce reductions, this tactic is used primarily in smaller firms (the size of the circle represents average firm size), suggesting that investment cutbacks are a common response across the sector. Deferring capital expenditures is often one of the first actions firms take when faced with uncertainty because it preserves cash while avoiding the immediate operational disruptions associated with layoffs or production cuts.

▶ **Absorbing rising costs.** Nearly half of the firms in the sample reported absorbing additional costs rather than passing them on to customers. These firms tend to be somewhat larger on average, likely reflecting their greater financial capacity to withstand cost pressures for longer periods. In highly competitive supply chains, particularly in the automotive sector, firms often face limited ability to raise prices without risking the loss of contracts or market share. As a result, many firms choose to absorb increases in input, logistics, or tariff-related costs in order to maintain customer relationships and preserve future business opportunities.

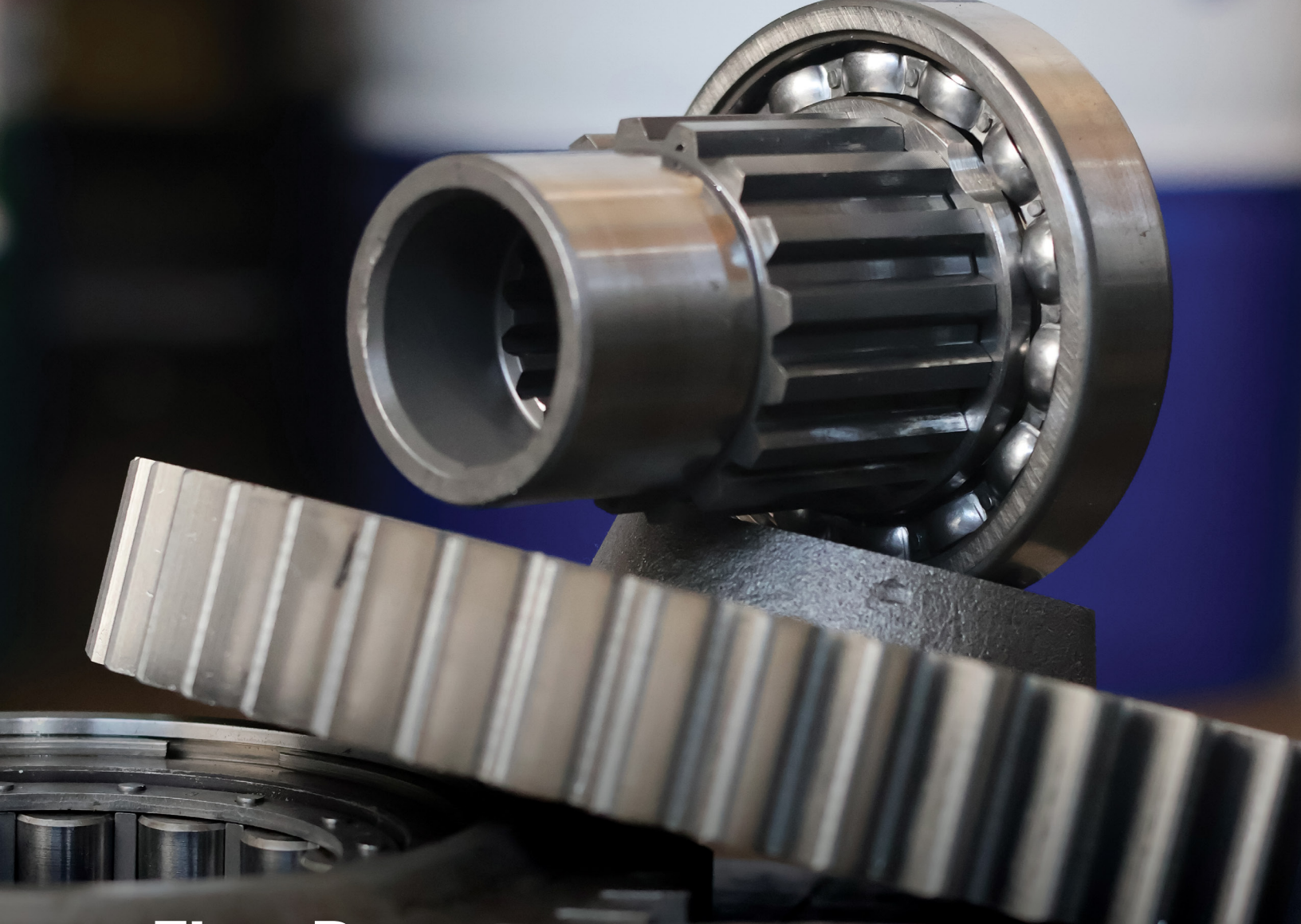
However, absorbing higher costs in an environment of declining revenues inevitably places pressure on profitability. Even among firms that report being profitable, margins are likely to have narrowed as revenues fall and operating costs rise simultaneously. This suggests that reported profitability may mask a deterioration in firms' underlying financial performance, with many firms maintaining positive earnings only through aggressive cost management and operational efficiency.

▶ **Changing suppliers and sourcing strategies.** Some firms (36 per cent) reported changing suppliers in response to tariffs on key inputs, particularly steel and aluminum. For firms operating production facilities in the United States, shifting suppliers was also part of broader efforts to localize sourcing and reduce exposure to cross-border trade frictions. Notably, the firms adopting this strategy tend to be substantially larger, reflecting both their greater purchasing power and their ability to reconfigure supply chains across multiple locations.

Smaller component manufacturers, by contrast, often have limited flexibility in supplier selection. In many cases, OEMs or Tier 1 customers specify approved suppliers and negotiate sourcing arrangements on behalf of smaller firms, effectively locking them into particular input sources. As a result, these firms have fewer options for mitigating tariff-related cost increases or supply disruptions. This highlights an additional vulnerability facing smaller component manufacturers: while larger firms can adapt by restructuring their supply networks, smaller firms are often constrained by their position within buyer-dominated supply chains.

▶ **Limited ability to raise prices.** Finally, only 18 per cent of firms reported increasing prices for their customers over the past year, despite widespread cost increases across the sector. This finding underscores the limited pricing power of automotive component manufacturers within highly buyer-driven supply chains. Many suppliers operate under long-term contracts with OEMs and Tier 1 customers, where prices are negotiated in advance and opportunities to pass through higher input costs are constrained.

As a result, even when faced with rising costs associated with tariffs, materials, labour, or logistics, most firms were unable to fully transfer these increases to customers. Instead, they were forced to absorb additional costs, reduce margins, or pursue cost-cutting measures elsewhere in their operations. The fact that so few firms raised prices highlights a structural vulnerability of the sector: while suppliers bear much of the burden of external shocks, they often lack the bargaining power necessary to protect profitability through price adjustments.



Firm Responses: Efforts to Expand Customer & Industry Scope

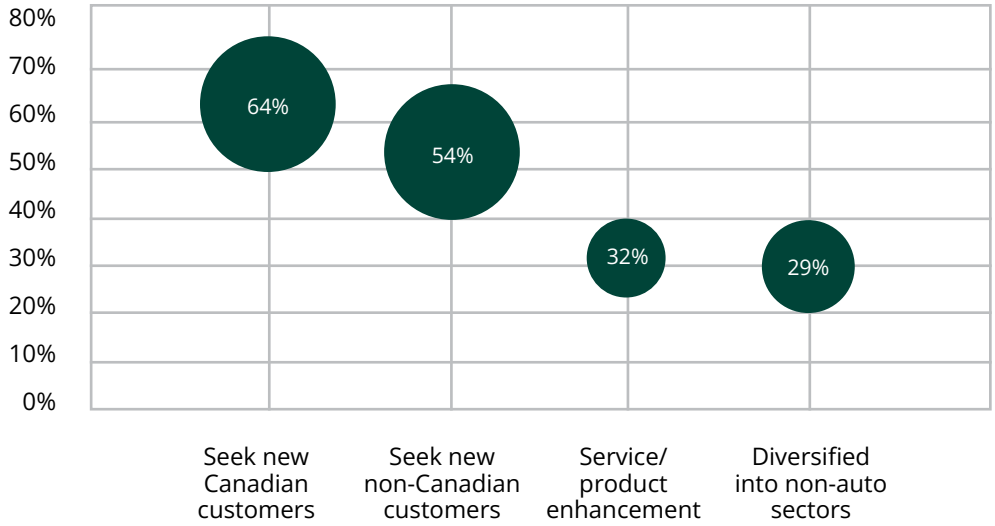
Highlight: *Faced with trade disruptions and weakening demand, most surveyed firms sought new customers in Canada and abroad, but these efforts were generally insufficient to offset sector-wide revenue declines. More transformative strategies—such as product enhancement and diversification beyond automotive markets—were less common, reflecting the greater difficulty and complexity involved in pursuing them.*

The survey also explored whether firms responded to trade disruptions by expanding their customer base or broadening their product offerings. A majority of firms reported pursuing new customers as a growth and risk-mitigation strategy (Figure 7). Specifically, 64 per cent of respondents sought new customers within Canada, while 54 per cent actively pursued customers outside Canada. These findings suggest that many firms viewed market diversification as a key response to declining demand and heightened uncertainty within their existing customer networks.

By contrast, fewer firms reported undertaking more substantive strategic adjustments. Approximately 32 per cent indicated that they had invested in product or service enhancements, while only 29 per cent reported entering non-automotive industries. This gap is unsurprising. Expanding into new customer segments within existing automotive supply chains—particularly within the CUSMA region—often allows firms to leverage existing capabilities, certifications, production processes, and industry relationships. Diversifying into non-automotive markets, however, frequently requires new technological capabilities, product redesign, regulatory compliance, marketing channels, and customer relationships, making it a considerably more challenging undertaking.

Importantly, despite widespread efforts to attract new customers, many of these firms continued to experience revenue declines. This suggests that customer acquisition strategies alone were insufficient to offset the broader contraction affecting the sector. In a fractious trade environment where many SME component manufacturers were simultaneously facing reduced demand, firms may have found themselves competing for a shrinking pool of business rather than accessing genuinely new growth opportunities.

Figure 7. Firms initiatives to increase geographic and industry scope



The graph shows % of firms reporting initiatives to expand their customer geographic and industry scope. Circle size is proportional to the average number of employees among firms that reported taking the initiative.

Product and service enhancements can nevertheless play an important role in protecting market share during periods of sector-wide turbulence. In particular, the ability to ensure reliable and timely delivery amid supply chain disruptions, tariff uncertainty, and shifting sourcing requirements can become a valuable differentiator. Firms that help customers navigate trade-related disruptions, maintain production schedules, and reduce supply chain risks may strengthen their relationships with Tier 1 suppliers and OEMs, enhancing customer retention and positioning themselves more favourably when market conditions improve.

CUSMA Uncertainty, Chinese EVs, and Relocation Risks

Highlight: *Respondents expressed cautious expectations about CUSMA renegotiation—most anticipated outcomes that would be neutral or worse for Canada—while views on Chinese EV imports were similarly guarded, with perceived impacts largely neutral to negative. Despite this uncertainty, most firms reported little intention to relocate operations, indicating strong locational stickiness even amid heightened trade and policy risk.*

▶ **Perception of CUSMA renegotiation.** Respondents were asked about their perceptions of the renegotiation of the Canada–United States–Mexico Agreement (CUSMA). Overall, expectations were cautious (Figure 8A), with more than 53 per cent of respondents indicating that any revised agreement would be worse for Canada than the current arrangement. In contrast, approximately 25 per cent believed that the agreement would remain largely unchanged in ways that meaningfully affect the sector, suggesting limited expectations of substantive gains from the negotiations.

Figure 8A. Perception of CUSMA renegotiation

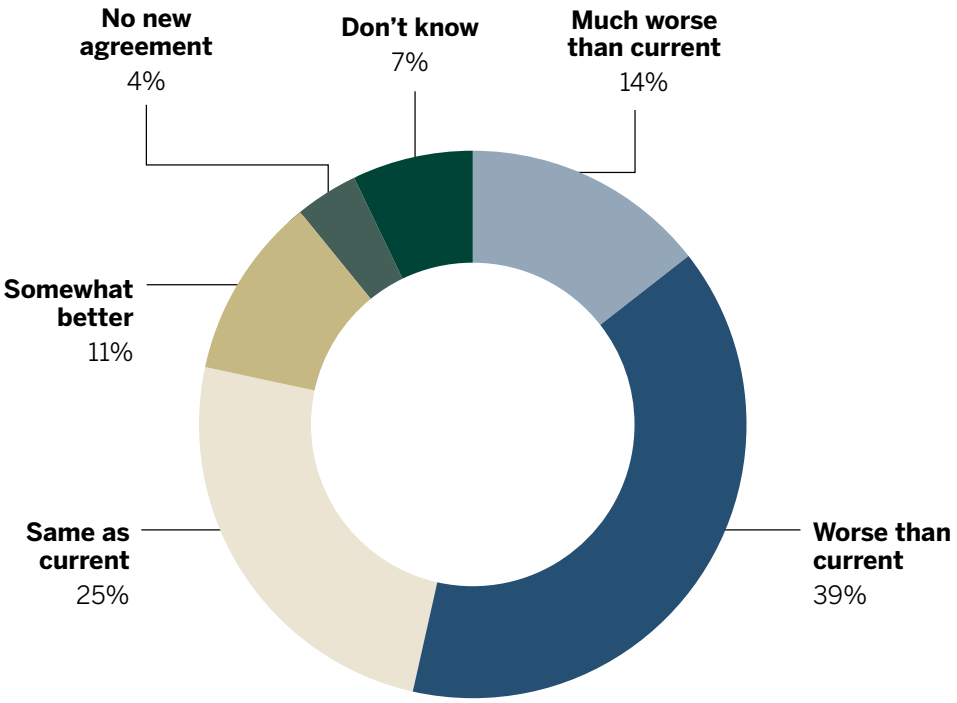
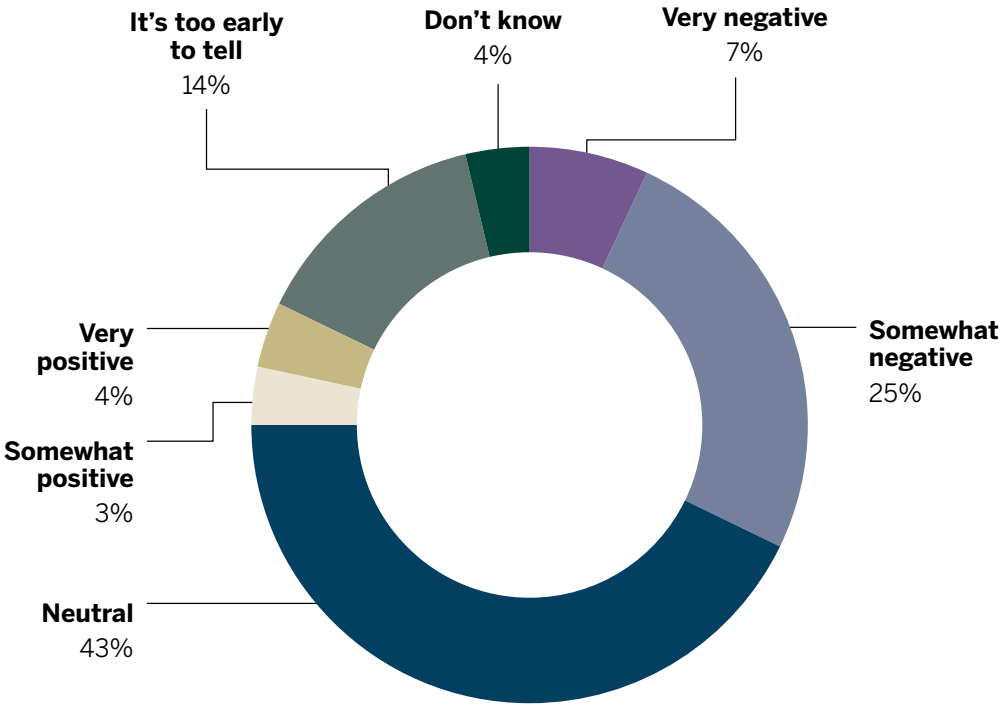


Figure 8B. Perception of Chinese EV imports impact



The graphs present ring charts illustrating respondents' views on the outcome of the forthcoming CUSMA negotiations and the implications of Chinese EV imports for the automotive industry.

▶ **Perception of Chinese EV imports.** Respondents were also asked about the potential effects of Chinese electric vehicle (EV) imports—approximately 49,000 vehicles annually—entering the Canadian market under relatively low tariff conditions. Views were mixed but leaned toward muted effects (Figure 8B): 43 per cent of respondents expected a neutral impact with limited implications for the domestic industry, while 32 per cent anticipated a somewhat or very negative effect due to increased competitive pressure. Only 7 per cent expected a positive impact, primarily through the benefits of heightened competition and potential efficiency gains within the sector.

▶ **Relocation intentions.** Given the turbulent trade environment, firms were also asked whether they were considering relocating their business to the United States or elsewhere. A clear majority indicated little intention to relocate, with 46 per cent reporting that it was highly unlikely and a further 11 per cent stating it was unlikely. In contrast, only a small minority signalled relocation intent, with 11 per cent indicating it was likely and 7 per cent highly likely, while 25 per cent reported that they did not know or had not yet made an informed assessment.

This pattern suggests a strong degree of locational stickiness within the sector, likely reflecting the embedded nature of firms in existing supply chains and sunk investments in production facilities. At the same time, the relatively large share of respondents in the "don't know" category points to ongoing uncertainty rather than firm commitment, consistent with an environment in which firms are still evaluating medium-term trade and policy risks rather than making definitive relocation decisions at this moment.

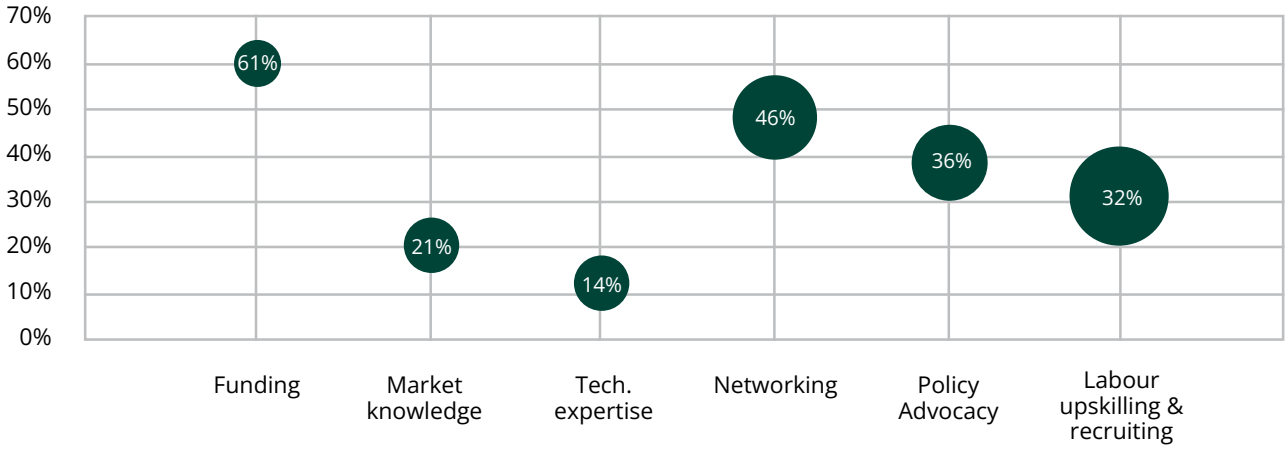
What Support Do Firms Say They Need?

Highlight: *Survey responses indicate support needs vary by firm size and strategy: smaller firms primarily seek improved access to funding to manage liquidity constraints, while larger firms emphasize policy advocacy and skilled labour support tied to productivity and capability upgrading. Networking and industry partnerships are highly valued as key sources of information, opportunities, and supply chain coordination within the automotive sector.*

The survey elicited responses on the types of support firms believe would help them manage current industry challenges (Figure 9).

▶ **Rising funding needs.** Approximately 60 per cent of respondents indicated that improved access to funding would be beneficial. These responses are concentrated among smaller firms. This pattern is consistent with the greater financial constraints and more limited internal financing capacity typically faced by smaller firms in the industry. As noted earlier, smaller firms were more vulnerable to recent shocks and, as a result, have had to rely more heavily on cost-cutting and internal adjustments to remain afloat, including identifying savings elsewhere in their operations. Consequently, their stronger demand for external funding support reflects both tighter liquidity conditions and a reduced ability to rely on internal buffers during periods of sustained revenue pressure.

Figure 9. Supports firms seeking to manage current challenges



The graph shows the percentage of firms seeking different types of support. Circle size is proportional to the average number of employees among firms reporting each type of support.

▶ **Relatively less interest in market and technology support, but more interest in networking.** Only 21 per cent of firms reported a need for market intelligence support, while just 14 per cent indicated a need for technological expertise. This pattern likely reflects firms' continued focus on existing automotive markets rather than diversification into new product areas, as noted earlier. The relatively low demand for knowledge and technology support therefore suggests that most firms are pursuing adjustments within their existing industry boundaries rather than broader strategic shifts.

Yet, nearly half of respondents (46 per cent) identified networking and partnerships with industry players as valuable sources of support. This highlights an important distinction between acquiring new knowledge and leveraging existing industry relationships. Firms seemed to be focusing on expanding networks that provide timely information, business opportunities, supplier connections, and insights into changing customer requirements within the automotive industry. Such relationships can help firms identify new contracts, navigate trade disruptions, share information on regulatory changes, and coordinate responses to supply chain challenges.

▶ **Policy advocacy.** Approximately 36 per cent of firms in the sample identified policy advocacy as an important form of support in addressing current trade and competitiveness challenges. These firms tend to be larger in size, suggesting that larger manufacturers may be more attuned to the role that government policy plays in shaping industry outcomes. Unlike smaller suppliers, larger firms often have greater exposure to trade policy, regulatory changes, and investment incentives, making government engagement a more consequential part of their competitive positioning.

Larger firms are also more likely to possess the organizational capacity needed to engage directly with policymakers and participate in policy consultations. As a result, they may view advocacy not simply as a defensive response to current trade disruptions but as a means of influencing the broader policy environment in which they operate. At the same time, there is a widespread perception that large Tier 1 suppliers and OEMs are more likely to be consulted when designing trade and industrial policy. This dynamic raises broader questions about whether the concerns and needs of smaller suppliers are being adequately represented in discussions surrounding the future competitiveness of Canada's automotive industry.

▶ **Labour upskilling.** Approximately 32 per cent of surveyed firms identified support for developing and recruiting skilled labour as an important priority. Notably, these firms tend to be among the largest component manufacturers in the sample. This pattern stands in contrast to smaller firms, which, as discussed earlier, were more likely to respond to current market pressures through workforce reductions. Facing declining revenues and tighter financial constraints, smaller firms often prioritize immediate cost containment.

Larger manufacturers, by contrast, generally possess greater financial resilience and are better positioned to absorb short-term cost pressures without significantly reducing employment. As a result, their competitive concerns are less focused on labour costs per se and more on labour quality, productivity, and the availability of specialized skills. For these firms, maintaining a highly skilled workforce is increasingly important as automotive production becomes more technologically sophisticated and operational efficiency becomes a critical source of competitiveness.

Diversification into Non-Auto Industries

Highlight: *Diversification into non-automotive industries is a selective but increasingly important response to weakening conditions in the automotive sector, despite significant cost and capability-related barriers. Our analysis suggests that successful diversification is associated with stronger demand for external support, clear technological and capability-based adjacencies, and greater organizational ambidexterity, as firms balance managing core automotive pressures while exploring new opportunities in other industries.*

Diversifying into new industry products can provide automotive component manufacturers with a pathway to greater resilience by reducing dependence on the cyclical automotive sector. By leveraging existing manufacturing capabilities, engineering expertise, and production infrastructure, firms may be able to enter adjacent industries and develop additional revenue sources that are less exposed to automotive-specific shocks, including trade disruptions and technology transitions. However, such diversification is often challenging and resource-intensive, requiring investments in new technologies, product development, certifications, regulatory compliance, and unfamiliar customer relationships. These investments create execution risks, particularly when returns are uncertain or existing capabilities do not readily translate into competitive advantage in new markets.

Considering these benefits and challenges, we examined the extent to which firms in our sample were pursuing diversification beyond automotive markets, the barriers they encountered, and the types of support they considered important in doing so.

▶ **Barriers to diversification into other industries.** Overall, 29 per cent of surveyed firms reported expanding their product offerings into a new non-automotive market over the past year as conditions in the automotive sector deteriorated. Among these firms, 38 per cent identified the costs associated with entering a new industry—including worker training, new machinery, and product development—as a major challenge. Among firms that did not enter a new industry during this period, however, this figure rises to 60 per cent.

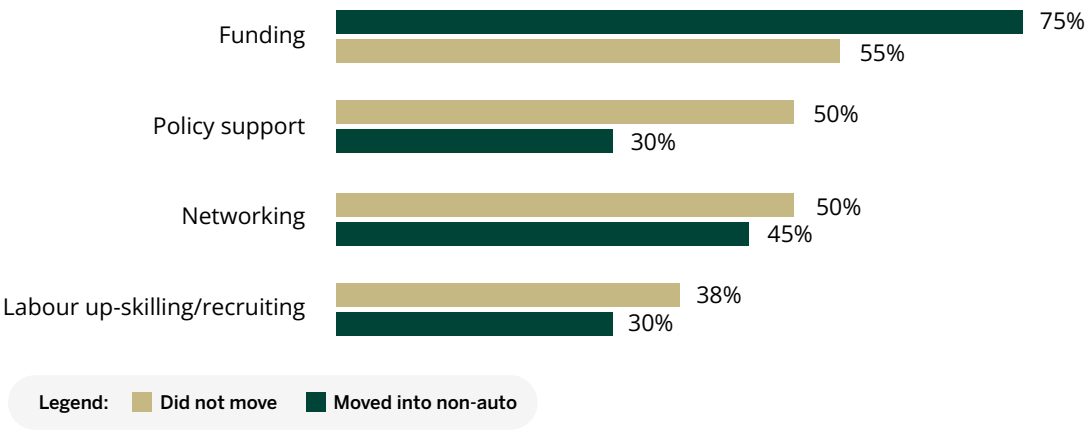
While firms that entered new industries during the past year tended to be larger on average, there were also smaller firms that diversified during this period. This suggests that while firm size and resources matter, they are not the sole determinants of diversification outcomes. Entrepreneurial orientation, product-market fit, and the ability to identify opportunities in adjacent industries may also shape whether firms perceive diversification as feasible. More broadly, the findings suggest that barriers to diversification may be influenced as much by firms' perceptions as by the objective costs themselves.

Interestingly, there is no systematic difference in perceived uncertainty in pursuing new industry diversification between the two groups of firms, suggesting that such uncertainty is broadly shared and therefore does not appear to be the primary factor distinguishing diversification decisions.

▶ **Support for diversification into other industries.** Figure 10 shows that across four key areas—access to funding, skilled labour development and recruitment, networking and partnerships, and policy advocacy—a consistently higher proportion of firms that entered into new product markets reported needing support compared with firms that did not. This is expected as firms entering new industries need to cover upfront investment costs, as well as assistance in recruiting and developing skilled labour to meet new production and technical requirements. Similarly, they place greater emphasis on networking and partnerships, reflecting the importance of accessing new customer relationships, supplier ecosystems, and industry-specific knowledge when moving beyond established automotive markets. Even in the area of policy advocacy, diversifying firms report higher demand, suggesting that engagement with government and industry policy frameworks becomes more salient as firms expand into unfamiliar regulatory and competitive environments.

Overall, these findings suggest that industry diversification is not a passive response to sectoral decline, but an active, resource-intensive process requiring financial, human, relational, and institutional resources.

Figure 10: Support needs by firms diversifying or not



The graph compares the percentage of firms reporting different types of support needs between those that entered new industry product markets over the past year and those that did not.

▶ **Barriers to diversification into other industries and ambidexterity.** We further examined the characteristics of firms that enter into new industry product markets, and find that automotive component manufacturers that already operate in a non-automotive industry are significantly more likely to have entered an additional new industry over the past year. This pattern suggests that the first step beyond the core automotive business may be the most difficult; however, once firms have successfully diversified, they appear to develop organizational capabilities and external connections that reduce the marginal cost and uncertainty associated with subsequent diversification into adjacent industries. In this sense, diversification may be self-reinforcing: initial entry into a new industry expands the firm's opportunity set and enhances its ability to identify and act on additional adjacent opportunities.

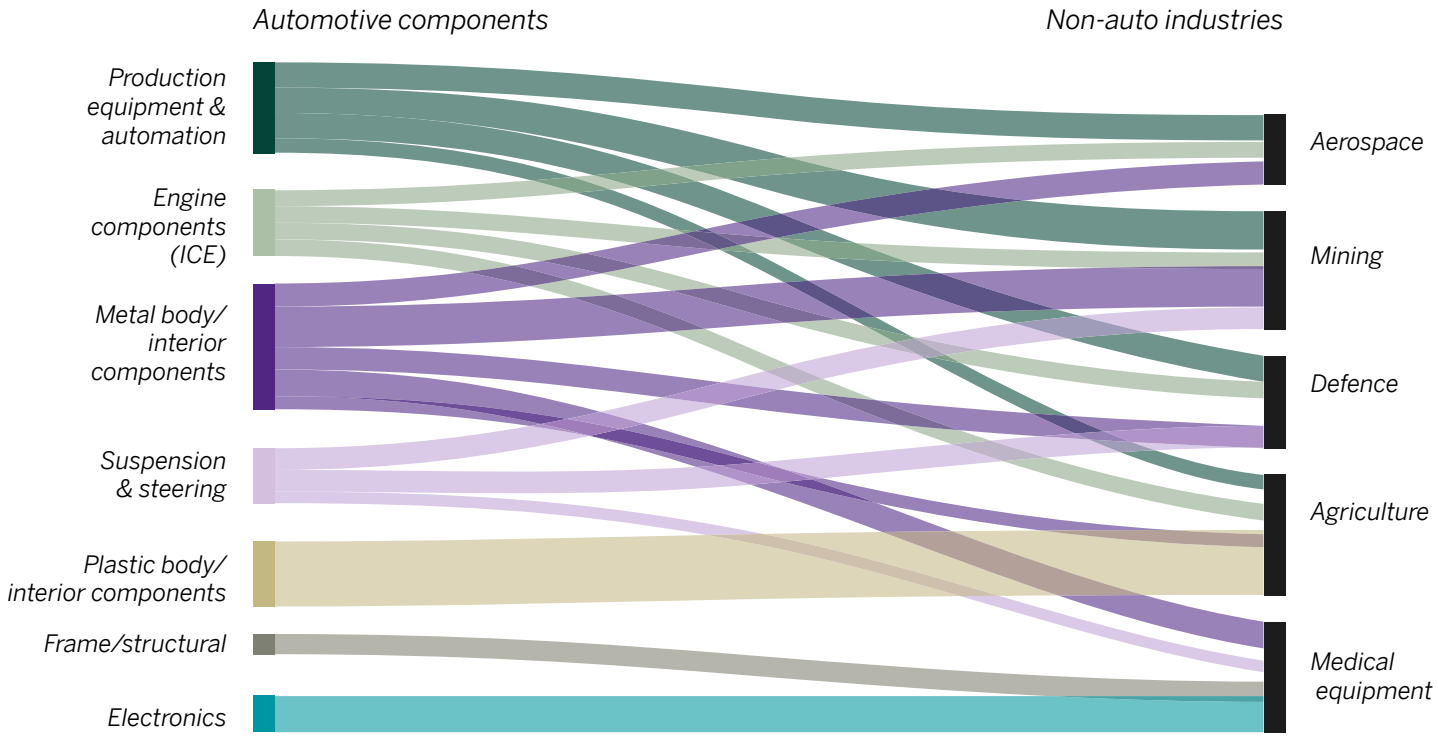
We also observe systematic differences in how firms manage pressures within their core automotive business. Among firms that entered new industries over the past year, a smaller share report being constrained by the need to manage challenges in their automotive division compared with firms that did not diversify. This suggests that successful diversification may be associated with greater organizational capacity to balance ongoing demands in the core business while simultaneously exploring new opportunities.

This pattern is closely aligned with the concept of organizational ambidexterity (Gibson and Birkinshaw, 2004), which emphasizes a firm's ability to simultaneously exploit existing capabilities while exploring new ones. In this context, ambidextrous firms appear better able to absorb shocks in their core automotive operations while investing in exploration beyond the sector, whereas less ambidextrous firms may remain locked into managing immediate pressures within their core business, thereby limiting their ability to pursue diversification.

▶ **Industry adjacencies.** To explore patterns of industry adjacencies, we focus on firms in our sample that have diversified beyond automotive markets and map their automotive product categories to the non-automotive industries they also serve (Figure 11). We find that diversification is not random but instead follows technological and capability-based proximity. The most common adjacent industries include aerospace, mining, defence, agriculture, and medical equipment, suggesting that firms are leveraging existing engineering capabilities and production competencies to enter markets with related technical and manufacturing requirements.

Mining and defence emerge as particularly important adjacent sectors for firms producing core structural and powertrain-related components such as engines, metal body parts, and steering and suspension systems. These industries share similarities with automotive manufacturing in terms of durability requirements, precision engineering, and heavy-duty performance standards, which facilitates transferability of capabilities. Aerospace also appears as a relevant, though more selective, destination for diversification, with success concentrated among manufacturers of engines and metal body components, reflecting the high engineering intensity and stringent material standards required in that sector.

Figure 11: Industry diversification patterns among automotive component producers



The graph shows automotive component manufacturers' diversification into five key non-automotive industry adjacencies: aerospace, mining, defence, agriculture, and medical equipment.

Agriculture machinery represents another, albeit more limited, area of diversification for firms producing core structural and powertrain-related components. Within this segment, firms manufacturing plastic body and interior components are relatively more represented. This pattern may reflect lower structural and regulatory barriers to entry in agricultural equipment compared with aerospace or defence, as well as greater overlap in design flexibility and cost-sensitive applications where lightweight plastic components can be more easily redeployed.

By contrast, firms specializing in automation systems and industrial machinery exhibit the broadest diversification footprint, with successful entry into aerospace, mining, defence, and agriculture. This likely reflects the cross-cutting nature of automation technologies, which are less tied to a specific end-use sector and more oriented toward process optimization, robotics, and production efficiency.

Finally, although our sample includes relatively few firms producing electronics and frame components, the available evidence suggests a more concentrated diversification pattern for these firms, with entry primarily into the medical equipment sector.

Strategic Choices, Resilience & Growth

Our findings suggest firms in our sample are broadly considering four sets of strategies in response to the turbulent trade environment: cost cutting, cost absorption, relocation, and diversification (Table 2).

▶ **Cost cutting.** A first set of responses involves cost-cutting measures, primarily through reductions in labour costs and the postponement of capital investment. These strategies are most commonly observed among smaller manufacturers, reflecting tighter liquidity constraints, more limited access to external financing, and lower capacity to absorb short-term revenue shocks. Consistent with this, such firms are also more likely to seek external funding support to maintain operational viability while adjusting to adverse conditions.

While cost cutting can improve short-term cash flow and help firms survive periods of uncertainty, it is inherently defensive in nature. Over-reliance on labour reductions and deferred investment may weaken longer-term competitiveness by eroding capabilities, limiting innovation, and delaying productivity-enhancing upgrades. In this sense, cost cutting may allow firms to "wait out" current uncertainty—potentially in the expectation that trade conditions, including CUSMA arrangements, remain stable—but it does not constitute a sustainable pathway to resilience or growth, particularly if structural changes in the industry persist.

Table 2. Firm strategic choices and implications

Cost-cutting	Cost absorbing
• Usually small firms • Labour cost and investment reductions • Seeking funding support to remain afloat ▶ Unlikely to be a sustainable pathway to resilience or growth, particularly if structural changes persist	• Typically larger, less diversified manufacturers serving OEMs • Internalize increased input and tariff costs rather than passing them tocustomers • Seek policy support and adjust suppliers where possible ▶ Unlikely to be a sustainable pathway to resilience or growth, particularly if structural changes persist
Relocation	**Industry diversification**
• Only a handful of firms are considering relocation. • These firms are generally smaller or already operate facilities in the United States. • Diversification challenges and weak financial performance were cited as key motivations. ▶ Relocation remains a major strategic decision and does not necessarily eliminate exposure to trade or demand uncertainty; for Canada, it could mean a loss of productive capacity and jobs.	• Requires balancing short-term automotive pressures with longer-term exploration (organizational ambidexterity) • Drives demand for funding, networking, policy support, and labour upskilling • Firms with prior diversification experience are more likely to expand into additional industries ▶ Difficult to execute, but creates strategic optionality for long-term risk hedging and growth

The table summarizes four sets of strategies in response to the turbulent trade environment and their potential implications.

▶ **Cost absorption.** A second prevalent strategy is cost absorption, where firms internalize increases in input, logistics, or tariff-related costs rather than passing them on to customers. This approach is more common among larger firms, particularly those supplying OEMs within tightly integrated supply chains. These firms typically have greater financial buffers, allowing them to sustain margin compression in the short run, but they tend to be also less diversified across end markets, making them more exposed to sector-specific shocks.

Reflecting their position within the industry, they place greater emphasis on policy advocacy and government engagement, likely due to both their organizational capacity to influence policy processes and their strategic interest in maintaining existing trade arrangements. However, while cost absorption may preserve customer relationships and market share in the short term, it steadily erodes profitability and can constrain investment in future capabilities. As such, like cost cutting, it represents a constrained adjustment strategy rather than a durable foundation for long-term resilience in an environment of sustained trade and technological uncertainty.

▶ **Relocation.** A third strategic response involves the consideration of relocating some production activity to the United States or Mexico. In our sample, however, relocation remains a minority response rather than a broad strategic shift. Firms indicating a higher likelihood of relocation tend to fall into two groups: smaller manufacturers under acute financial and customer pressure, and firms that already operate facilities across borders and therefore face lower adjustment costs in rebalancing production. In both cases, relocation appears less as an offensive growth strategy than as a response to constrained strategic options within Canada. Consistent with this interpretation, firms more open to relocation also tend to report weaker recent performance and greater difficulty pursuing more capability-intensive responses such as diversification into adjacent industries.

At the same time, the survey suggests that for many firms relocation remains more of a contingent option than an imminent plan. A clear majority reported that relocation was unlikely, while a sizable minority remained uncertain rather than committed. This pattern is important. It suggests that firms are not broadly seeking to exit Canada, but are instead evaluating relocation as a possible hedge against continued trade volatility, shifting OEM investment patterns, and uncertainty surrounding North American production mandates. In that sense, relocation reflects not only economic calculation but also the search for strategic flexibility in an environment where firms perceive limited control over external policy and demand conditions.

Even so, relocation remains a major and highly consequential decision that most firms are reluctant to undertake. This reluctance reflects the high fixed costs of moving production, the sunk nature of existing plant and equipment, the embeddedness of suppliers in established customer relationships and certification routines, and the operational disruption involved in rebuilding labour, logistics, and supplier networks elsewhere. Moreover, given the deeply integrated structure of North American automotive production, relocation does not necessarily eliminate exposure to trade or demand uncertainty; it may simply redistribute that exposure across jurisdictions while introducing new coordination costs and execution risks. For a limited number of firms—particularly those with existing U.S. operations or unusually acute exposure—relocation may offer a partial hedge. But for the sector as a whole, it does not appear to constitute a broadly viable or sustainable pathway to long-term resilience or growth.

▶ **Industry diversification.** Entry into new sectors requires firms to navigate unfamiliar technologies, certification requirements, customer relationships, and production processes, creating significant execution risk and uncertainty about returns. Yet despite these challenges, diversification can create valuable strategic optionality. In an environment characterized by persistent trade tensions, technological transition in the automotive sector, and cyclical demand pressures, reliance on the core automotive business alone leaves firms highly exposed. In this context, diversification—while difficult—emerges as a potentially sustainable pathway for both shielding firms from sector-specific shocks and generating new sources of growth.

This is particularly relevant given emerging opportunities in adjacent sectors such as defence, aerospace, mining, and agriculture, where industrial policy shifts and rising public and private investment are creating new demand for advanced manufacturing capabilities. Increased defence spending, renewed aerospace production capacity, and sustained demand in mining and industrial equipment suggest that automotive firms with potentially transferable engineering and production capabilities may find meaningful adjacent opportunities that are unlikely to be replicated within the automotive sector alone.

However, successfully capturing these opportunities requires more than opportunistic entry; it depends on firms' ability to develop organizational ambidexterity—maintaining discipline and efficiency in their core automotive operations while simultaneously investing in exploration and capability building in new adjacent markets. A key constraint in this process is that much of the knowledge required for entry into new industries is tacit and embedded in production routines, supplier relationships, and customer-specific requirements, often requiring close interaction with experienced actors in the target industry. This underscores the importance of partnerships and collaborative arrangements that enable firms to access, absorb, and internalize new capabilities, consistent with evidence that knowledge transfer in industrial upgrading is relational and learning-intensive (e.g., Mostafa and Klepper, 2018). Achieving this balance between managing pressures in core operations and exploring new industry opportunities is difficult and often constrained by internal resource limitations, as we elaborate below.

Finally, given the current environment, these dynamics also point toward a potential wave of mergers and acquisitions and broader industry consolidation. We observe two firms in our sample—both relatively large, profitable, and experiencing revenue growth—actively engaging in acquisitions. This suggests that stronger incumbents may be well positioned to acquire smaller firms, particularly those possessing niche technologies or specialized capabilities, at relatively attractive valuations amid heightened uncertainty and financial stress.

More broadly, sustained trade volatility, margin compression, and constrained investment capacity among SMEs may increase exit pressures over time, further reinforcing consolidation dynamics within the sector. At the same time, if uncertainty persists, consolidation may occur not only through acquisition but also through firm exits, as weaker players struggle to remain viable. For SMEs, this environment underscores the importance of actively shaping their strategic trajectory rather than remaining passively exposed to external shocks. In this context, maintaining strategic optionality—particularly through diversification and capability building—can be critical, as it enhances both resilience and attractiveness as a potential acquisition target while preserving longer-term growth pathways.

Actionable Policy Considerations

Continued uncertainty in the Canada–U.S. trade relationship creates a credible risk that current pressures on Canadian automotive component manufacturers will persist rather than dissipate. At the same time, there are signs of active efforts to strengthen manufacturing capacity and supplier networks within the United States, suggesting that North American production may continue to evolve in ways that favour deeper U.S.-based sourcing and industrial coordination (for example, the Michigan Launchpad initiative led by Ford, JPMorganChase, and the State of Michigan). For SME component manufacturers operating solely in Canada and heavily exposed to the U.S. market, this strengthens the case for exploring alternative customers and adjacent industries. In this context, diversification can serve as an option-preserving strategy, allowing firms to build new market opportunities, capabilities and relationships before adaptation becomes more urgent.

The case for public intervention does not rest on the assumption that firms cannot make their own strategic decisions, nor that diversification is appropriate for all suppliers. Rather, it rests on the possibility that viable firms face barriers that make adaptation difficult precisely when it becomes more important. The findings suggest that many SMEs are under financial and operational strain: declining revenues, postponed investment, and demand for financial assistance all point to limited capacity to absorb the upfront costs and risks of entering new product markets. Diversification often requires firms to develop novel technical capabilities and meet unfamiliar standards, develop new market-specific knowledge and customer relationships—challenges that can be particularly difficult for smaller manufacturers to manage on their own.

These challenges are compounded by financing constraints. Firms facing declining revenues and cash-flow pressure may be unable to fund the initial investments diversification requires, while private capital may be reluctant to support uncertain projects without an established track record in the target market. The result is that short-term survival pressures can crowd out investments needed for longer-term resilience. This suggests a role for public policy in creating enabling conditions that help capable firms identify viable opportunities, overcome entry barriers, and undertake commercially promising adaptation that might otherwise remain out of reach.

▶ **Policy recommendations.** Ontario and the federal government are not starting from zero. They already provide an important base of support for automotive component manufacturers through modernization funding, SME innovation programs, tariff-response financing, export support, procurement tools, and broader industrial strategy.

Ontario's support includes programs such as O-AMP for technology adoption and process upgrading, while the federal government has introduced larger-scale auto and tariff-response measures through the Strategic Response Fund and the Regional Tariff Response Initiative. Taken together, these supports suggest a clear willingness on the part of governments to support the sector.

Yet these supports are dispersed across provincial and federal programs that were often designed for different purposes: some focus on liquidity and stabilization, others on process modernization, innovation, export development, or regional adjustment.

This fragmentation matters. For firms adapting to prolonged uncertainty, the challenge is rarely a single missing input. Rather, successful diversification requires firms to coordinate financing, technical upgrading, market intelligence, certification, customer access, and strategic guidance. Smaller suppliers are unlikely to have sufficient managerial capacity and internal resources to navigate these interdependent demands effectively, particularly when they are simultaneously under pressure to sustain existing operations. The policy issue, therefore, is not only the presence or absence of support, but whether existing supports can be sufficiently coordinated, accessible, and well matched to the practical requirements of adaptation and diversification.

The policy priority is not to create an entirely new policy architecture but to make the existing one work better for firms facing adaptation pressures.

The recommendations below emphasize coordination, accessibility, and strategic fit, while also identifying a limited number of gaps that current supports do not adequately address.

The recommendations can be organized into three complementary policy functions: prioritizing and sequencing support, improving coordination and navigation across existing programs, and strengthening firms' capabilities and links to new adjacencies. Taken together, these functions reflect the central argument of the report: the policy challenge is not simply to provide more support, but also to ensure that existing and incremental supports help viable firms move from short-term stabilization toward longer-term adaptation and selective diversification.

Figure 12: Policy Recommendation Framework

The graph illustrates a policy framework for enabling SME component manufacturers to shift focus from short-term stabilization to long-term resilience by prioritizing and sequencing policy support, improving coordination and navigation, and strengthening capability upgrading and new market linkages.

1. Build a clearer adaptation and diversification stream onto existing supports

A first step would be to extend, rather than replace, existing provincial and federal programs by creating a more explicit adaptation and diversification stream for small and medium component manufacturers. Current supports are often well suited to modernization or short-term stabilization, but less clearly oriented toward helping firms enter adjacent industries. A dedicated stream could support activities such as market feasibility work, prototype development, tooling modification, qualification processes, and first-market-entry efforts in sectors where firms' existing capabilities are transferable. This would help bridge the gap between automotive modernization and broader strategic repositioning.

2. Improve coordination across provincial and federal programs

Current support programs are delivered through different institutions, operate on different timelines, and apply different eligibility rules, making it difficult for firms to assemble complementary supports into a coherent adjustment strategy. A more coordinated approach—through joint program design, referral pathways, or formal alignment across provincial and federal delivery agencies—would make existing measures more effective. The key objective should be to reduce the burden on firms of navigating disconnected supports when the adaptation challenge they face is inherently cross-cutting.

3. Create a stronger advisory and navigation function for SMEs

For smaller suppliers, fragmentation is especially costly because they may lack the managerial bandwidth to identify relevant programs, assess adjacent-market opportunities, and sequence applications effectively. One practical response would be to create a clearer advisory or "single-window" function for component manufacturers facing strategic adjustment pressures. Such a function could help firms diagnose their needs, identify suitable combinations of support, and connect them to technical, financial, and market-development resources. In this sense, policy effectiveness depends not only on the existence of programs, but on whether firms can realistically access and combine them.

4. Link short-term stabilization support to longer-term strategic adjustment

Existing tariff-response, liquidity, and financing measures play an important role in helping firms weather periods of acute uncertainty. However, on their own, these measures may sustain existing operations without strengthening firms' capacity to adapt to changing market conditions. Where appropriate, stabilization support should be linked to longer-term capability development—for example, by pairing working-capital assistance with support for productivity-enhancing investments, customer development, or diversification planning. The objective is not to impose excessive conditions on emergency assistance, but to create pathways through which short-term relief can also support longer-term resilience, particularly for viable firms willing to invest in strategic adaptation.

5. Address capability and market-entry barriers to diversification

Current programs appear thinner in addressing the fixed costs and organizational challenges of entering unfamiliar industries. Diversification into adjacent markets often requires testing, certification, regulatory compliance, product adaptation, and customer qualification before meaningful business can be secured. But the barriers are not only financial or technical. Firms must also acquire tacit knowledge about customer requirements, production routines, procurement processes, and industry standards—knowledge that is often difficult to codify and typically gained through experience. For many firms, especially smaller suppliers, success also depends on managerial acumen for organizational ambidexterity: the ability to identify viable opportunities, interpret unfamiliar market signals, build credibility with new customers, and pursue new markets while sustaining performance in the core

automotive business. A targeted market-entry stream—covering assistance in developing managerial acumen, certification, standards compliance, pilot production, customer qualification, and sector-specific advisory services—would help lower some of the most concrete barriers to diversification.

6. Strengthen cross-industry networks and partnership mechanisms

A separate but related challenge is gaining access to the networks and relationships through which entry into a new industry often becomes possible. Diversification is not simply a matter of adapting production internally; it also means operating within a new supply chain, with different buyers, suppliers, integrators, and sector-specific institutions. Building capabilities for a new industry and developing customer relationships therefore often depends on tacit knowledge acquired through repeated interaction, collaboration, and proximity to established actors. Partnerships are thus not peripheral to diversification, but often central to it. Existing programs provide some assistance with business development, but there is still a case for stronger cross-industry partnership mechanisms linking automotive suppliers with firms in adjacent sectors such as defence, aerospace, mining, agriculture, and medical equipment. This could include curated supplier-buyer matchmaking, partnership development, demonstration projects, and industry-specific transition platforms. Such measures would help address the relational and ecosystem barriers that often limit diversification, even when firms possess relevant technical capabilities.

These two recommendations are complementary: the first focuses on firms' internal capability and readiness to diversify, while the second focuses on the external networks and partnerships through which diversification opportunities are identified and realized.

7. Use procurement and domestic supplier development more strategically

Public procurement can play a complementary role in reducing first-customer risk for firms entering adjacent markets. Existing procurement tools at both the provincial and federal levels already aim to strengthen domestic supply capacity. Used more strategically, they could help capable automotive suppliers gain an initial foothold in related sectors where public demand is expanding, such as defence and major infrastructure projects. Procurement should not substitute for commercial market development, but it can provide an important bridge by giving firms early opportunities to demonstrate reliability, build credibility, and establish a track record beyond traditional automotive customers.

Finally, it is important that policy not be framed as shifting support away from the automotive sector itself. Existing programs that support modernization, productivity, innovation, and competitiveness within automotive remain important, especially given the continuing significance of the sector to Ontario and Canada. The policy objective should instead be to add a complementary adaptation layer that helps firms facing prolonged uncertainty explore adjacent opportunities where appropriate. Not all firms will diversify, and not all should. But for those with relevant capabilities, viable opportunities, and a strategic need to broaden their market base, public policy can play a role in lowering identifiable barriers to adjustment.

Conclusion

This report provides new empirical evidence, based on a survey of 28 Canadian automotive component manufacturers, on how Canada's automotive component sector is navigating a period of sustained trade and technological uncertainty. The surveyed firms—predominantly SMEs embedded in North American supply chains—face considerable pressures, including widespread revenue declines, heightened exposure to policy uncertainty, and synchronized contraction across both Canadian and U.S. markets, which limits the protective benefits of geographic diversification. Despite these pressures, most surveyed firms have maintained profitability or break-even performance through aggressive cost management and operational adjustment. However, these responses are overwhelmingly defensive in nature. Labour reductions, deferred investment, and cost absorption have enabled short-term survival but offer little basis for strengthening long-term competitiveness, and may gradually erode innovation capacity and productivity if sustained over time. At the same time, firms face structural constraints in passing through costs or expanding margins due to buyer-driven supply chains and limited pricing power.

Strategically, the surveyed firms are largely focused on incremental adjustment rather than transformation. Relatively few firms have pursued diversification beyond automotive markets, even though those that have done so appear to be developing important organizational capabilities, networks, and forms of ambidexterity that support further expansion.

Where diversification occurs, it tends to follow capability-based pathways into adjacent industries such as aerospace, mining, defence, agriculture, and medical equipment, where firms can leverage existing engineering and production competencies. However, entry into these sectors is resource-intensive and unevenly distributed, requiring upfront investment, skilled labour, and access to new relational and institutional ecosystems. Accordingly, diversification is not a uniform or easily replicable strategy, but a selective process shaped by firm size, capabilities, and managerial orientation.

The policy implication is therefore not that governments must build an entirely new support architecture from scratch, but that existing supports need to work better for firms facing adaptation pressures. Ontario and the federal government already provide an important base of support through modernization programs, SME innovation initiatives, tariff-response measures, financing tools, export supports, and procurement policies. Yet these supports remain fragmented across programs, jurisdictions, and objectives, and are not always well matched to the practical requirements of diversification. The challenge is not simply one of providing more support, but of prioritizing and sequencing it more effectively, improving coordination and navigation, and helping capable firms strengthen internal capabilities while building links to new markets and supply chains.

Taken together, the survey findings point to a sector in transition. While cost-based adjustments dominate current responses, they are unlikely to provide a durable foundation for resilience in an environment defined by persistent trade uncertainty, evolving industrial policy, and technological disruption in the automotive industry. In contrast, selective diversification into adjacent industries—supported by organizational ambidexterity and targeted external support—appears to offer a more promising pathway toward long-term resilience and growth. The sector's future will not be secured by waiting for uncertainty to pass, but by building the capabilities, relationships, and strategic options needed to navigate through it. If those conditions can be put in place, today's pressures may yet become the basis for a stronger, more adaptive, and more diversified manufacturing base tomorrow.

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