



Towards Strategic International Alliances

Program Initiatives In Durham Region

by Patrick Olive and Joseph Montgomery

"In this century there have been many examples of poor, devastated countries becoming rich. It is less widely appreciated, however, that rich countries sometimes become poor—Britain, Argentina and Uruguay are conspicuous examples. Their prosperity eroded because their industries lost international markets where their dominance had once been taken for granted.

It is not alarmist to suggest that Ontario and Canada could face a similar erosion of prosperity through a similar loss of international markets. It could happen, but the Council is confident that it need not happen—so long as all the stakeholders in our economy learn to adapt to the new realities of the global marketplace." (1)

The above conclusion of the "Premier's Council" was a direct warning to Ontario manufacturing firms that the GLOBAL ECONOMY WOULD HAVE A PROFOUND INFLUENCE ON THEIR BUSINESS REGARDLESS OF THEIR PRODUCT OR SERVICE.

However, 1986 was still a relatively good business year and the prophecy went unheeded by many businesses and manufacturing firms but by 1989, even the federal government was admitting the possibility of a recession.

During the 1990 prospecting trip to West Germany by Mr. Patrick Olive, Commissioner, Economic Development Department, Durham Region and Mr. Joseph Montgomery, Jos. Montgomery Consultants, it became evident that the 1990's would be the decade when Strategic Alliances would predominate in the international business world. Durham Region initiated a series of studies that has put the Region in the forefront of

economic development agencies across Canada.

1.0 BACKGROUND

During the boom years of the 1980's, there was an unprecedented number of mergers, acquisitions and take-overs in North America involving all types of businesses. There were Canadian take-overs of American department stores, American take-overs of Canadian firms and mergers of many Fortune 500 firms to form immensely large corporate structures.

In some cases, corporate changeovers were undertaken for the same reasons why present day firms are seriously considering "STRATEGIC ALLIANCES": the addition of new product lines, access to R & D, diversification of product lines and in some cases consolidation of products in a vertical sense rather than the traditional horizontal widening of goods or services.

During the recession/depression of 1990/1992 unprecedented bankruptcies of all types of businesses took place, primarily striking those that had banked on "business as usual". Those firms that managed to continue operations cut staff, stopped expansion plans and trimmed operating costs to a minimum.

These changes weren't just taking place in North America. Europe was undergoing a transformation under EC 92 plans, East and West Germany were unified, the Soviet Union was disbanded and countries formerly behind the Iron Curtain joined the Free World trading partners.

In Europe, "STRATEGIC ALLIANCES" had been a way of life for many years providing a means of industrial



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growth. Many corporations had departments within their organization that did nothing but investigate potential Joint Venture partners. Therefore, with the world-wide recession, they were in a better position to enlarge their Joint Venture operations but, unfortunately, this was not the case in North America.

Realizing the lack of understanding of strategic alliances by the majority of manufacturing executives, the Canadian federal and provincial governments set up

1. CONCLUSION of the "Premier's Council" Report, 1986.

departments to assist Canadian firms to expand the potential of manufacturers in any way possible.

Whilst so many Canadian firms worried about survival on a daily basis, too few took advantage of the assistance available from governmental sources for the strategic alliance program.

Many leads for possible strategic alliances with off-shore companies were obtained by federal and provincial trade officers in our embassy/consulate/trade offices throughout the world. Unfortunately, most foreign posts did not have the type of information on Canadian manufacturing firms that was necessary for a match-up. Many leads appeared in federal and provincial trade papers distributed in Canada. This would have required action by Canadian firms but too few firms allocated resources for Joint Ventures (J.V.), and many opportunities were ignored.

1.1 DURHAM REGION GETS INVOLVED

After a careful analysis of the facts, it was decided that a two-pronged effort would be required if Durham manufacturers were to benefit from some successful strategic alliance.

1. Meaningful information on Durham manufacturing firms would have to be sent to all Canadian embassies, consulates and Ontario Government offices throughout the world.
2. Strategic alliance opportunities would have to be screened and distributed to those Durham firms interested and capable of entering into a strategic alliance. Follow-up procedures would have to be instigated for every lead sent to a Durham firm.

Because of the concentration of automobile/auto parts manufacturing firms in Durham Region, this was the logical sector to concentrate on at the beginning.

1.2 AUTOMOTIVE/AUTOMOBILE PARTS SECTOR

The automobile/automobile parts manufacturing sector of Durham Region dominates the industrial scene and as such the local economy rises and falls based on the financial health of this single industrial sector. Many other Canadian municipalities with either one large dominant manufacturer or a concentration of simi-

lar types of manufacturers have the same boom/bust syndrome.

Below are listed some of the inherent basic factors of the automobile/automobile parts manufacturers. If the same situation pertains to your jurisdiction, the following study can be used as a basis for your area.

1. They have a highly skilled labour force.
2. The firms are already producing products with a high level of sophistication.
3. Many firms are equipped with the latest types of manufacturing machinery for high-speed production.
4. Many plants are operating under "Total Quality Control" (TQC).
5. Most firms are not working at full capacity on a yearly basis.
6. Many firms are privately owned and have a greater degree of flexibility of action than larger multi-national firms.
7. A number of auto part manufacturers produce a single item for a small number of customers.

1.3 PURPOSE AND OBJECTIVES

THE PURPOSE OF THE STUDY WAS TO DEVELOP A STRATEGY TO INCREASE THE POTENTIAL OF DEVELOPING NEW JOB OPPORTUNITIES AND RETAINING PRESENT PERSONNEL BY ASSISTING DURHAM REGION AUTOMOBILE PARTS MANUFACTURING FIRMS TO FIND A SUITABLE STRATEGIC ALLIANCE THAT WOULD PROVIDE OPPORTUNITIES FOR DIVERSIFICATION OF PRODUCT LINE AND INCREASED PRODUCTIVITY.

2.0 METHOD

A steering committee was set up including members of the Durham Region Manufacturers Assoc., Durham College, Employment and Immigration Canada (EIC), Ontario Ministry of Industry Trade and Technology (MITT), Federal Industry, Science and Technology Canada (ISTC), Jos. Montgomery Consultants and Durham Region Economic Development Department.

A program was developed including the following:

1. Production of a Strategic Alliance Survey Form for distribution to designated industrial firms.
2. Necessary meetings and advertising to introduce the program to the targeted manufacturers.
3. Distribution and follow-up of survey.
4. Information to be contained on a company data sheet that would be included in a loose-leaf binder.
5. Inclusion of other related material in binder.
6. Production of shipping carton for binder.
7. Development of a mailing list for the Durham binder.
8. A time frame for all of the above steps.

Before the above steps could be implemented, further funding was made available from CEIC that completely changed the focus of the study.

Arrangements were made for Durham College to be the co-ordinating agency for disbursements and a study supervisor was appointed. Three staff members were hired from the list of registered unemployed to fill the following positions:

- a senior interviewer
- a junior interviewer
- an office clerk/computer operator.

A training program for the staff members was prepared in such a manner that their newly developed skills (computers, office procedures, report writing, etc.) could be utilized immediately. Office equipment and necessary space was arranged in the Durham Region Economic Development Department where further instruction was given in office procedures.

The scope of the initial survey was enlarged to include 8 more significant Durham industrial sectors grouped into four major sections for ease of handling and filing:

AUTOMOTIVE/AUTOMOTIVE PARTS
HEALTH CARE/
PHARMACEUTICALS
PLASTICS/PACKAGING
AEROSPACE/DEFENSE/
COMMUNICATIONS.

2.1 THE STRATEGIC ALLIANCE SURVEY FORM

This was the heart of the entire project.

Knowing the manufacturers' resistance to questionnaires, we called it a survey form. Every question on the form had to be justified and approved by the Steering Committee. Mr. Montgomery's extensive experience in foreign business travel was used to tailor many questions in a form required by overseas firms.

The survey form's final format was divided into three major parts covering the following areas:

Section 1, Company details of address, telephone, fax company contact, year established, head office or subsidiary, type of company, product lines and executive personnel.

Section 2, Size of land, percentage utilized, whether owned or leased, size of buildings in total and broken down into office, manufacturing, warehousing. Under manufacturing space, length and width of building, configuration, sprinklered, shipping doors, heating, clear height. Under office, air conditioned and types of computers.

Section 3, Production capabilities including main functions and other capabilities, machinery, special capabilities, CAD/CAM, patents held, listing of "Total Quality Management" standards. Union information, types of strategic alliances wanted, personnel and any special skills, R & D information, annual sales, sales staff and area of coverage, export sales information, interest in sales missions/trade shows, any major importation of parts or material from outside Durham Region broken down by dollar volume.

2.2 INTRODUCTION OF SURVEY FORM

A complete "Joint Venture Survey Form" package was developed including a descriptive letter of the major types of strategic alliances and the purpose of the project plus a return address envelope.

On Nov. 14th, 1991, a press conference was held at Durham Region's headquarters building chaired by Mr. G. Herrema, Regional Chairman and co-hosted by Mr. Patrick Olive, Commissioner, Economic Development Department. Radio, press and television coverage was excellent and paved the way for the next step.

On November 15th, invitations were mailed to approximately 200 firms in the 9 industrial sectors inviting them to a "PROFITS THROUGH JOINT VENTURING" breakfast on Nov. 22nd.

The breakfast invitation list also included EDO's from the Region, mayors of Durham municipalities, press, radio, television representatives and staff members from the Economic Development Department.

Speakers included Messrs A. Anderson (ISTC), J. Ayling, (MITT), P. Olive, Commissioner, Economic Development, T. Rahilly, Durham College, D. G. Newman, President, Durham Region Manufacturer's Assoc. Approximately 70 were in attendance and again, the cooperation from the media members was excellent.

2.3 DISTRIBUTION AND FOLLOW-UP PROCEDURES OF SURVEY FORM

After the breakfast meeting, a letter was sent to all firms in the J/V target groups that had not been in attendance giving details of the program and alerting them to expect a telephone call from a member of the Special Project Team.

A telephone procedure was developed giving the industrialist the following options:

1. A personal interview with a team member to discuss the survey form.
2. A personally delivered package addressed to the proper contact person.
3. Having a survey form package mailed to the proper contact person.

In each case, a file was opened and a follow-up date entered. All three staff members of the project team worked on this part of the program. Weekly staff meetings were held with major emphasis being placed on problem solving.

At the same time, work was undertaken on the design and development of the data that would be transposed from the survey form to the individual company data sheets that would appear in the loose leaf Durham Region "Joint Venture OPPORTUNITIES" book.

3.0 DURHAM REGION'S "JOINT VENTURE OPPORTUNITIES" BOOK

3.1 BACKGROUND

Commercial officers in our federal and provincial embassies, consulates, trade offices around the world do an excellent job of locating potential overseas strate-

gic alliance partners. Two data bases (WIN) and (BOSS) are used by these offices in locating Canadian and Provincial manufacturing firms that might be interested in joint venturing.

However, certain types of information on Canadian firms needed by possible foreign partners is lacking. The "Joint Venture OPPORTUNITIES" book was designed to fill the above needs for Durham manufacturers as well as fulfilling the following:

1. The book was designed to sell Durham Region as a good manufacturing location.
2. The book provided information on the industrial sectors within Durham Region.
3. The book had to be adaptable for the addition of new manufacturing firm data sheets.
4. A communications link had to be provided between Durham Region and our overseas posts.

3.2 BOOK CONTENTS

The four sections of the book were designed to be a prestigious presentation about Durham Region. It was fortunate that a previously prepared Executive Summary of Durham Facts could be adapted to the book.

Section 1 Introductory letter from the Commissioner. Section 2 Basic Durham Region Statistics (see above)

Section 3 Index pages of all participating J/V firms alphabetically listed and individual company data sheets

Section 4 Fax reply forms pre-printed with Durham Region's fax number and address.

3.3 DISTRIBUTION OF "JOINT VENTURE OPPORTUNITIES" BOOK

From the prepared mailing list which included all Canadian government embassies and consulates, Ontario Government trade offices plus a number of foreign trade offices located in Canada, a mailing was made asking for a contact name to receive the forthcoming book.

Over 90% replied in the first two weeks with close to 100% within three weeks, a sure indication that the book was needed and would be used.

Arrangements were made with both levels of government to distribute the books to their offices with a covering

letter from Messrs. A. Anderson to the federal group and J. Ayling to the provincial offices.

On May 25th 1992, almost a year from the start of the study, the books were completed and based on the previous successful format, a press conference was held at Durham Region's headquarters building featuring the book.

Approximately 200 books were distributed in June, 1992 and a steady stream of further requests for the book have been received. Many complimentary letters from recipients suggested other types of information that would be of assistance to them in their constant hunt for strategic alliance partners and proposed future steps are listed at the end of this presentation.

4.0 STRATEGIC ALLIANCE LEADS

4.1 RATIONALE

There is no shortage of potential strategic alliance opportunities. The major problem is selecting the best for your manufacturers. However, without knowing what firms are interested in joint venturing and in what area, makes proper planning difficult.

With the completion of the "Joint Venture OPPORTUNITIES" book, the job became much easier and more efficient.

4.2 SOURCE OF JOINT VENTURE LEADS

There are two major sources of Joint Venture leads available, "CANADA EXPORT" produced jointly by the federal departments of External Affairs and International Trade Canada and "MARKET PLACE" produced for Ontario EDO's by MITT.

In addition, most foreign consulates, embassies and trade offices have lists of potential Joint Venture opportunities from their country.

THE MAJOR PROBLEM IS NOT THE NUMBER OF POTENTIAL Joint Venture OPPORTUNITIES AVAILABLE. THE PROBLEM IS FINDING THOSE WITH THE GREATEST CHANCE OF SUCCESS FOR YOUR AREA FIRMS AND FOLLOWING UP TO MAKE CERTAIN ACTION WAS UNDERTAKEN.

4.3 MILLION DOLLAR JOINT VENTURE BREAKFAST

Since the start of the Joint Venture program in Durham, opportunities from many sources had been gathered.

The dollar volume of the potential Joint Ventures was in the millions of dollars. It was decided to hold a press conference followed by a "Million Dollar Joint Venture" breakfast.

All Joint Ventures were divided into geographic regions and put on tables in a room that had been rented for the occasion. All the manufacturers in the "Joint Venture OPPORTUNITIES" book received invitations to the meeting.

Forms were designed for attendees to register those Joint Ventures of interest to them. No Joint Ventures were to be taken by manufacturers. In this manner, we maintained records of Joint Ventures sent to manufacturers which were entered into a follow-up file.

5.0 ANALYSIS OF FIRMS IN JOINT VENTURE GROUP

From details filled in on the survey forms (confidential documents) that were not included on the company data sheets (written approval given for public domain), some interesting facts emerged after analysis was completed.

There is no doubt that the final 81 firms included in the Joint Venture group are proactive in many fields such as R & D, exporting, new product development and Total Quality Control (TQC). By appearing in the Joint Venture book, the Durham firms are being personally contacted from many different areas and are beginning to act as a coordinated group passing information to other manufacturers featured in the book.

Following is a brief resume of some interesting facts.

RESEARCH & DEVELOPMENT

Fifteen out of 81 (18.5%) of the Joint Venture group reported ongoing R & D programs. Another 17 (21%) are heavily involved in New Product Development that comes very close to being R & D. This is a much higher level of involvement in R & D than the Canadian average.

TOTAL QUALITY CONTROL (TQC)

A total of 21 firms (25.9%) operate under TQC. This is understandable as most auto part manufacturers must adhere to recognized quality control standards.

COMPANY STATUS

Most of the Joint Venture group have their headquarters in Durham Region (80.2%) and as such make decisions on such vital areas as strategic alliances, export, R & D, etc.

Table 1

Companies in Durham		
Head Offices	65	80.2%
Canadian Subsidiaries	03	03.7%
U.S.A. Subsidiaries	12	14.8%
Offshore Subsidiaries	01	01.3%
Total	81	100.0%

GEOGRAPHIC LOCATION

The geographic location of the JV Group is predominantly in the southern tier, Pickering, Ajax, Whitby, Oshawa and Newcastle. All of the named municipalities straddle Highway 401, the main transportation route of Canada (Figure 1 - see next page).

INDUSTRIAL SECTORS OF JOINT VENTURE GROUP

The breakdown by industrial sector emphasizes the importance and predominance of the automotive sector in Durham Region.

SIZE OF JOINT VENTURE GROUP BY EMPLOYMENT

The number of employees in the Joint Venture group follow the national pattern with 51.8% having fewer than 25 employees and 88.9% having fewer than 100 employees. General Motors Canada and Chrysler Canada are two of the firms with over 250 employees (Table 2).

Table 2

Size of Firms		
Employment Breakdown	Number Of Firms	% Of Firms
01 to 10	23	28.4%
11 to 25	19	23.4%
26 to 50	18	22.2%
51 to 100	12	14.8%
101 to 250	06	07.4%
Over 250	03	03.8%
Total	81	100.0%

EXPORT STATISTICS

Canada must export to exist and the 81

Figure 1

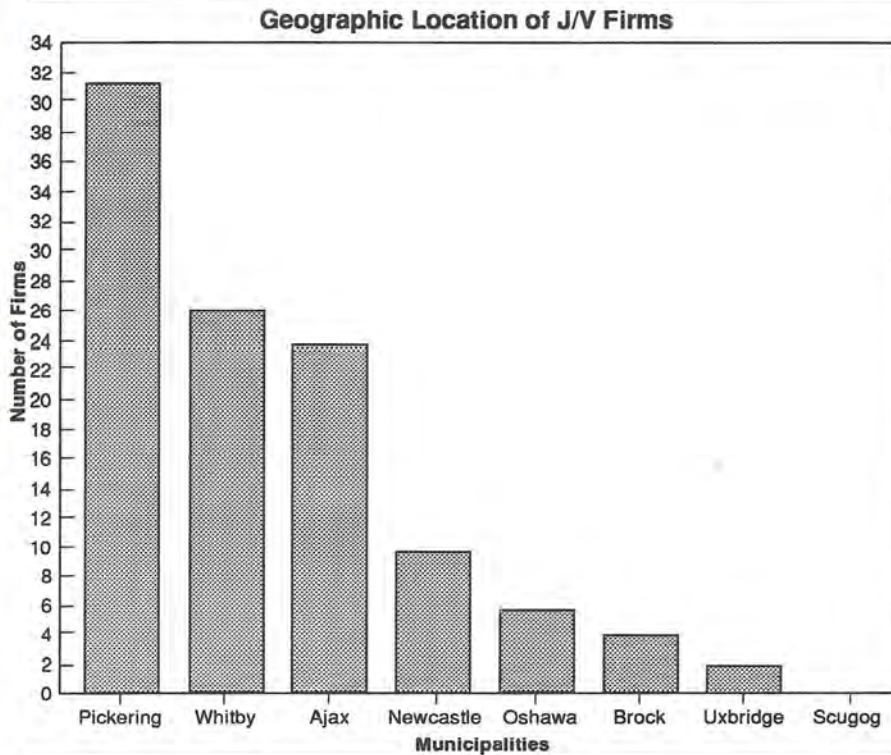
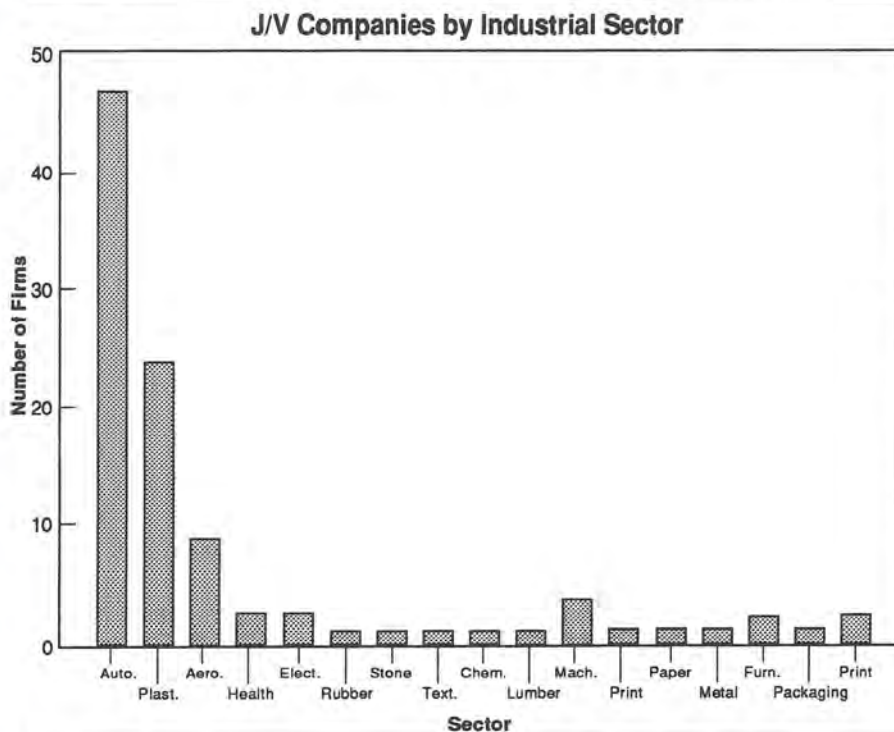


Figure 2



firms making up the Joint Venture group are strong exporters both out of Canada and within Canada but out of Durham Region.

INTERNATIONAL EXPORTS

Forty-four firms, a commendable, 54.3%.

It is highly likely that the Canada-US

Auto Pact Agreement was the catalyst to start many Durham firms exporting but 41.3% of international exports reported were to countries other than the U.S.A. indicating expanding export marketing.

OUT OF DURHAM BUT WITHIN CANADA

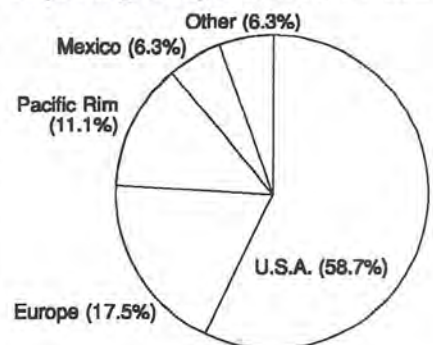
Another set of export figures show a high level of goods shipped outside Durham Region boundaries but within Canada.

Export dollars that bring new monies into Durham are equally important to Durham as international export dollars. Sixty-three firms, a large, 77.8%.

COUNTRIES OF EXPORT BY JOINT VENTURE GROUP

Some Joint Venture firms are multiple-country exporters. The following graph represents the percentage of times a country was reported as an export destination (Figure 3).

Figure 3
Exporting Companies of J/V Firms



UNION MEMBERSHIP OF JOINT VENTURE GROUP

The predominant union in Durham Region is the Canadian Auto Workers Union (CAW). However, only 18.5% of the 81 firms in the Joint Venture group are unionized, mostly in the manufacturing area. The other 66 firms (81.5%) are not unionized in either the factory or the office.

The following breakdown (Table 3 - see next page) shows employment figures of the Joint Venture group by union/non-union designation.

Table 3.

Unionized Firms		
Employment Breakdown	Number Of Firms	% Of 81 Firms
01 to 10	0	0
11 to 25	0	0
26 to 50	2	2.5%
51 to 100	5	6.2%
101 to 250	4	4.9%
Over 250	4	4.9%
Total	15	18.5%

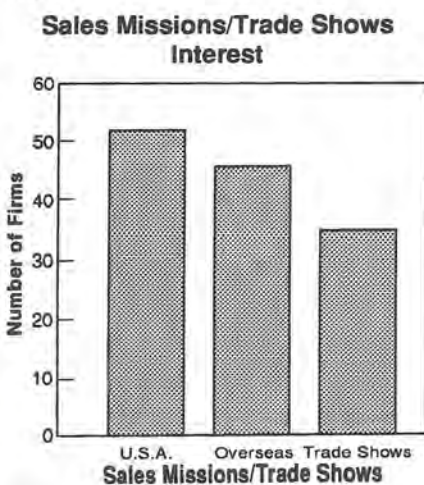
Non-Unionized Firms		
Employment Breakdown	Number Of Firms	% Of 81 Firms
01 to 10	21	25.9%
11 to 25	22	27.2%
26 to 50	14	17.3%
51 to 100	07	8.6%
101 to 250	02	2.5%
Over 250	0	0
Total	66	81.5%

SALES MISSIONS AND TRADE SHOW PARTICIPATION

With an extraordinary number of exporting firms in the Joint Venture group, it followed naturally that a large percentage of the Joint Venture group would be interested in going on sales missions and attending or taking part in trade shows (Figure 4).

However, government funding was mentioned as being a necessary ingredient. At the time of the original report, some federal financial funding that was available is no longer in place. Government assistance for international exporters should have top priority.

Figure 4



6.0 RECOMMENDATIONS FOR CONTINUANCE OF STUDY

When one undertakes pioneering work, it is difficult at the beginning to visualize all of the ramifications that will take place from beginning to end.

The basic concept, Durham Region's "Joint Venture OPPORTUNITIES" book was completed on schedule and within budget constraints. The training program for the Special Project Staff was undertaken successfully making the staff members highly trained and better equipped for employment.

On analyzing comments/suggestions from overseas recipients of the Joint Venture book and staff reports of problems encountered, a list of further steps required was developed if the Joint Venture study was to reach its maximum impact.

The list is not in order of importance. They are all important, they should all be done and every effort should be expended to finalize the Joint Venture program.

ADDITION OF NEW INDUSTRIAL SECTORS

All industrial sectors making up Durham's industrial mix should be contacted regarding their interest in joining the Joint Venture group.

LISTING BY SIC CODES

Many government programs are organized by industrial sectors. These systems are used for sorting by sectors (i.e. Ontario's MITT uses the international "Harmonized" system).

Most systems provide a very precise manufacturing classification but in our case, would undo one of our major thrusts—the addition of new lines to our present one-product, one-customer manufacturers.

If our Joint Venture group were classified by the 2-digit Standard Industrial Classification (SIC) codes, it would provide the flexibility of providing a sector grouping for the book users and would permit multiple SIC listings for our firms whose product lines or manufacturing capabilities cover more than one sector.

JOINT VENTURE DATA ON COMPUTER DISCS

Only one Durham Region "Joint Venture OPPORTUNITIES" book was sent to the various government offices. Where there are more than one commercial of-

fices, one book is not enough. A self-contained 5.25" computer diskette capable of operating on any IBM compatible computer could be designed and sent to all the book users. In this manner, the number of extra copies required for a consulate or trade office could be made. Then, copies of individual company profiles could be made and utilized as mailing pieces.

FOLLOW-UP PROCEDURES FOR JOINT VENTURE LEADS

An easy-to-use efficient follow-up system for Joint Venture leads sent to any of our Joint Venture group of companies is absolutely essential.

The coded system could be computer controlled or could be manually-operated. This would then provide a method of recalling Joint Venture leads that were sent to a firm and not acted on for one reason or another. The same lead could then be redistributed to another firm in the same industrial sector.

TRAINING FOR OUR LOCAL JOINT VENTURE GROUP MANUFACTURERS

Of all future steps recommended, this is the most important. To most Canadian firms, strategic alliance negotiations are a completely new avenue of business and where undertaken, are usually superimposed on the top of an already overburdened work load.

Necessary resources in the form of time, money and staff participation must be allocated if a strategic alliance is going to be profitable and successful. There are a number of procedures that should be followed.

With a proper training program in all avenues of strategic alliances, the Joint Venture group of manufacturers would be in a better position to undertake the finalization of a strategic alliance. This, in turn, could increase their competitive edge in the global economy.

IN CONCLUSION

Most Canadian municipalities or regions under the jurisdiction of an EDO have manufacturers capable of entering into the field of strategic alliances. In most cases they need assistance and assurance.

It is hoped that the case history of Durham Region will provide sufficient information to assist other EDO's across Canada in the formation of a "STRATEGIC ALLIANCE" program.