Planning to Compete

by Reuben Sokol

For Canadian companies, today's priorities are improving competitiveness and adapting to a global marketplace. How can firms in your region become more competitive? How can you help these firms develop plans to gain an edge in world markets?

These issues should be of interest to you as economic development managers and planners. You wish to see your region's economic base continue to grow, which implicitly requires continued exports by these local companies. You also often influence and advise local companies about general economic development issues. These efforts tie in with your mission to promote, assist and foster economic prosperity within your municipalities.

In particular the range of your possible involvement in improving competitiveness includes the following. You can help organize specialized training programs, create local business associations in key industry sectors, direct firms seeking global contacts through your own governments or business contacts, or organize specific trade missions. You may be measuring and influencing infrastructure and indirect costs, such as utilities and taxes, that can affect the global competitiveness of local firms.

Table 1 shows seven competitiveness levels, ranging from the global level of a major trade zone to the functional level of small groups of employees. While much has been written on the topic of global competitiveness from a very general or economic view, there is still a need for individual companies to develop detailed and concrete plans to compete. This will be the focus of this article.

BACKGROUND

Before discussing these remedies let's take a look at the key issues and ailments affecting Canada's national and regional competitiveness. Measured either by share of world exports, cost efficiency or share of growing or high-value industries, Canadian competitiveness declined during the last decade. During the 1980's, Canadian manufacturing exports fell as a percentage of total world exports, according to the Paris based Organization for Economic Co-operation and Development (OECD). Figures by Statistics Canada show that the country's merchandising-trade surplus fell to a ten-year low of $7 billion in 1989, down from $15 billion in 1982.

CANADIANS ARE REGIONAL TRADERS

If a company is like most Canadian businesses, it probably exports very little outside North America. Twenty Canadian companies, including several major auto companies and mining companies, accounted for 35% of Canada's total 1990 exports worth about $141 billion. By contrast, 70% of Canadian manufacturers export no products. It is well known that about three quarters of Canadian exports go no further than across the border to the United States. A lesser known fact is that most exports travel the relatively short distance from Ontario and Quebec to the northeastern states. Canada's experience is mostly in regional, instead of global trade.

Table 1: **Levels of Competitiveness**

	Level	Example
1/	Major trade zone	Japan & Southeast Asia, Western Europe, North America
2/	Country	Ranking of Canada versus other OECD countries, in broad economic measures (political stability or inflation)
3/	Region	Location within several North American regions southern Ontario/northeastern U.S., or British Columbia/Western U.S.)
4/	Industry	World market share, as measured by export/import ratios
5/	Company	Value added by products
6/	Department or Activity	Benchmarking the relative cost per transaction or order
7/	Employee skills	Education and literacy levels

Much has been written recently about global competitiveness, yet, what does this really mean? If you want to see whether an industry is competitive on a global scale, the simplest and most meaningful measure is to look at the ratio of its Canadian exports to imports. An industry with a high ratio is considered competitive since, on balance, it can sell to other markets. Canada exports 19 times more wood than it imports and is thus competitive in this industry. Yet it imports four times more printing than it exports. In this value-added sector it is not very competitive.

Relative manufacturing costs rose at the end of the 1980's. Admittedly, much of this increase reflected the impact of a high Canadian dollar. Yet real growth in Canadian manufacturing productivity has failed to keep pace with increasing costs, and most of our manufacturing takes place in mature and low-growth industries, such as autos and resources, in which cost competitiveness is critical. In growing industries, such as software, Canada holds only a moderate world market-share, partly the result of sluggish spending on research and development, in which Canada now ranks 17th in the world.

EFFECT ON INDIVIDUAL INDUSTRIES

These points have key practical implications to companies in your area. Canadian companies and industries that are less competitive can expect their local and global market shares continue to decline. As an example, the domestic market share held by Canadian carpet manufacturers has fallen 90% to 60% in the past few years because of inroads by U.S. firms. American prices are lower since the U.S. operations are larger and their plants thus more efficient. Many segments within the commercial printing market find it hard to compete with U.S. companies on non-rush orders. The cost of labour and materials (e.g. fine paper) are generally much lower in the U.S. Many books published in Canada are printed in Hong Kong.

How do these problems affect companies in your region? If the current round of negotiations under the General Agreement on Tariffs and Trade (GATT) succeed, world trade will increase. Foreign companies will attempt to more products and services into Canada. Domestic companies or industries that fail to penetrate global markets, in turn will lose market share. As an obvious example, Canadian retailers have been hit hard, not just by cross-border shopping; but also by highly efficient U.S. or foreign retailers like the Price Club and the Gap. Canadians with competitive products should plan to expand their sales to international markets, or at least to the United States. Economic development departments can help Canadian companies in this regard, by referring them to contacts with other government agencies or businesses here or abroad.

ACTION PLAN FOR MARKETING

The sales and marketing functions at Canadian firms can consider the following actions:

- Specialize in high-value products in protected marketing niches. Simultaneously, consider narrowing product lines, while dropping products that are not competitive.
- If a company is already producing quality product or service, it should plan to expand sales aggressively beyond traditional markets. Aiming at the nearby U.S. market is a first step.
- Spend time learning more about foreign markets where one's products are competitive. Speaking to Canadian or foreign trade officials can be a start. Research the subtle but key cultural and regulatory differences in these foreign markets. Start to develop key personal contacts in the markets you wish to enter. Begin to upgrade basic foreign language skills.
- Test foreign markets through trade shows in other countries. For Canadian companies that exhibit abroad, government funding is available to cover up to half of the cost.
- Consider leverage, through working with foreign sales agents or creating joint ventures with foreign companies.

As an economic development manager, you can direct local firms to relevant contacts in other government agencies. You can also act as a catalyst in joint marketing efforts such as specialized trade shows, trade missions or training programs. As an example, the town of Markham has set up an economic alliance program to involve local business people in becoming active partners in a community-based international effort.

ACTION PLAN FOR DEVELOPING HUMAN RESOURCES

According to Professor Michael Porter, companies should compare training levels of workers with those of foreign competitors. Canadian companies should upgrade the skills of their staff and forge closer ties with educational institutions and related industries, especially in information or development of new technology. Firms should strive to serve the most sophisticated and demanding buyers in their local market. They should work towards strengthening their local suppliers. Managers should work with labour more as partners, and simultaneously emphasize performance-based compensation.

Over the long-term, as we enter the information age, a key to the effort to add value is to enhance the knowledge of our employees. Training efforts, at the seventh level of competitiveness, shown in Table 1, are as important as our performance at the higher six levels. According to Michael Wilson, the federal Minister of Industry Science & Technology, more than 60% of the jobs created over the next ten years will require at least a high school education and 40% will require at least 16 years of education. Employees at most companies now have less than that level of training.

Companies thus should monitor their progress towards reaching the above targets, and bench-marking their training performance with global competitors, in both education levels and literacy rates. Literacy may not mean just competence in the English language. It can encompass fluency in foreign languages, technical literacy or computer friendliness. Companies should monitor all direct and indirect forms of training for each of their employees. These include job rotation, coaching and counselling, besides formal courses and seminars.

As an economic development manager, you can first monitor education progress in your municipality. Where relevant, you can liase with relevant government agencies and ministries to create an awareness of special opportunities for improvement of education in your region. In some cases you might even act as a catalyst, for the start or coordination of specialized industry training programs in your area.

ACTION PLAN FOR ACCOUNTING AND MANAGEMENT INFORMATION

A first step in solving a problem is usually to define and monitor changes in its status and the impact of programs to solve it. Companies in your area should begin to enhance their management reporting systems, to monitor their progress in competing against foreign competitors, selling either here in Canada or abroad. They should develop a more external and global perspective, adding more formal information systems that track global marketing trends. Amidst rapidly shrinking time for product life cycles, they should monitor the timing and timeliness of sales cycles, to help shrink the time and distances to reach overseas markets. In particular they should:

Take a more external or global outlook

- monitor their industry and com

pany's world-wide market shares
- record sales and profits by coun try, uncover hidden competitors in these countries, then benchmark their relative performance
- priorize their marketing efforts by major international trading zone

• Create new reporting systems to monitor both the stages of value-added and the timeliness in the sales cycle:
- track relative value-added by a company's activities, within an industry's total chain of supply
- create new measures to track the timeliness of operations from a customer's perspective.

Some of these measurements apply also on a larger scale to your planning for economic development. For example, it is important to track your region's competitiveness in retaining and attracting businesses. You also need to ensure that local government regulations and processes are timely. They should assist companies to work quickly and not unduly impede their efforts to develop and move products to international markets.

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