

## **International Business Strategy**

### **Executive Summary**

The Canadian automotive industry, and in particular the automotive component parts industry is part of the broader global industry. Canadian suppliers operate in regional, national and international markets to support the manufacture of light vehicles and to lesser extent, heavy duty vehicles.

The Canadian industry is best known for its integration into the North American vehicle market. Its strength lies in its history as a high quality, reliable and productive industry featuring superior infrastructure, skilled labour, and educated work force making its manufacturers world class manufacturers. Supported by significant R & D support programs and its proximity to one of the largest markets, its manufacturers consistently attract international attention. Historically, the North American market has produced vehicles volume approximating 16 million units annually. However, the recession of 2008-2009 in the U.S. led to a precipitous drop in sales, and production significantly dropped to a low of 8.6 million. This led to a significant drop in profitability, sustainability, employment and restructuring in the sector.

This also led to pullbacks at the company level in global initiative programs for export and growth such as in trade missions.

The industry has significantly recovered since then and production volumes have steadily increased each year reaching approximately 17.5 million in 2015. Companies in the supply sector are participating in this resurgence and have returned to a degree of profitability and stability with vehicle sales, exports and inventory replenishment as bright lights. However, macroeconomic indicators for NAFTA (mainly in the United States) while moving into positive territory, continue to do so sluggishly. Capital investments in Canada remain relatively muted, while increasing in the United States and even more so in Mexico. Mexico has attracted the significant majority of capital investment in the auto space in recent years. The quality of employment jobs in Canada and the United States, while improving, continues to be somewhat problematic as the majority of full time jobs being created tend to be lower paying, slightly muting the economic recovery. Consumer and business confidence levels continue to improve. Economic challenges remain in Europe and Asia negatively effecting the global economic confidence. As a result, the Euro exchange has depreciated significantly and most recently, with the world oil price decreasing significantly, there is a risk that various economic GDPs throughout the world may become adversely affected, Canada included. As a result, the Canadian dollar exchange has dropped as well, which may help stimulate consumer spending owing to gasoline price drops and increases the relative competitiveness of Canadian manufacturers shipping goods to the United States. While this is a benefit, manufacturers in Canada also procure significant products from the United States which increases their input costs.

As the business environment continues to improve, APMA is actively engaged in working with its government partners and industry colleagues with the key goals of developing initiatives focused on generating new business in global markets and helping to promote Canadian manufacturer capabilities and competitive advantages such as light-weighting and connected vehicle technologies.

APMA continues to undertake and execute initiatives focusing on trade missions, procurement missions and Supplier and Innovation Days to promote exports and trade in leading global automotive markets to assist Canadian manufacturers to become more globally competitive through global sourcing and supply chain development.

The United States, a long time key export market for Canadian manufacturers due to its close proximity and size of market (and will be for some time to come), with its economy continuing to grow, provides great opportunities for Canadian manufacturers as does Mexico with its recent, new capital investments. At the same time, Canadian manufacturers must proactively seek opportunities in growth areas beyond the NAFTA market for diversification and long term stability.

The recently signed Trans Pacific Partnership agreement (TPP) between 12 countries highlights the need for Canadian companies to diversify and grow their global footprint. TPP will be of significant benefit to larger companies as they gain preferential access to new foreign markets. However, smaller companies in Canada with footprints only in Canada are at risk to new competition emerging as a result of TPP.

APMA will lead Canadian manufacturers on trade initiatives to key global automotive markets and meet with key vehicle companies and Tier I/II suppliers for supply and partnership/joint venture opportunities. These markets are broadly defined as Asia (China, Japan, South Korea and India), Europe (especially Germany and Italy), Brazil, Mexico and the United States. The targeted vehicles companies include General Motors, Chrysler/FIAT, Ford, Toyota, Honda, Nissan, BMW, Volkswagen and Daimler. Tier I companies are identified in local markets based on market intelligence APMA has access to as well as input from industry colleagues from the local Federal or Provincial Trade Officers. Based on this input, appropriate initiatives are structured stemming from targeted Supplier and Innovation Day initiatives with specific companies and Advanced Engineering and technology Tech Days in the respective regions.

APMA led initiatives build upon previously successful initiatives that have occurred and focus on where the best opportunities exist in addition to exploring new avenues to access those markets with the input and support of our government and industry colleagues.

This strategy is derived from input and discussions emanating for the Federal Government's Automotive Sector Practice followed by input of industry members through its Marketing & Strategic Initiatives Committee and finally, by validations and authorization by APMA's Board of Directors. This Strategy was approved at an APMA Board Meeting on December 22, 2011, reviewed in 2014 and revised on January 14, 2016.

## **Sector Analysis**

APMA, is the national association representing automotive original equipment manufacturers in the sector across Canada.

APMA's Mission Statement is:

*"To engage in activities that promote the interests of automotive original equipment suppliers in Canada, that enhances the economic welfare of our members and to be the voice of the Canadian automotive supply industry."*

The industry exports approximately 74 % of its production annually, mainly to the United States. It is very technology driven as manufacturers strive to continuously develop new innovative processes, products and technologies to satisfy customer demands and exceed demands for quality, performance, cost, safety, energy efficiency, environmental friendliness.

Industry Capabilities:

*Widely recognized for their superior engineering capabilities with access to strong research and development organizations, the Canadian parts suppliers are globally recognized for their strong automation and productivity capabilities, sophisticated manufacturing processes and makers of high quality precision products. The Canadian companies have historically had core competencies in metals, plastics and raw materials. With technology advancements, the competencies have grown into injection molding, advanced metal forming and manufacturing, advanced automation and manufacturing processes, bio-composite and bio-fibre technologies, and intelligent, connected vehicle technologies.*

Most of the manufacturing activity has traditionally been clustered in Ontario and Quebec however as the variety of product offerings expand, especially into new areas such as bio-composites, bio-fibre, connected vehicles and alternative fuel propulsion, we see new clusters of competence emerging throughout other areas of Canada as well. Manufacturers of new emerging segments in the "Connected Vehicle", "autonomous vehicle" and the "electrification" of the vehicle segments are more broadly dispersed throughout Canada. These segments are anticipated to be significant growth areas and will provide new opportunities for Canadian companies, many of which are SME type or "Start Up" companies. These newer segments are areas of focus for APMA over the medium to long term as the industry evolves from traditional metal stamping, injection molding and assembly to more sophisticated technologically advanced products.

Automotive manufacturing is the largest industrial sector in Canada consisting of motor vehicle assembly, auto parts components and truck, body and trailer production. In 2014, the auto sector accounted for 10.4 percent of Canada's manufacturing GDP, amounting to more than \$85.0 Billion in industry shipments, 140,000 in direct employment and approximately 21 percent of Canada's manufacturing trade. Specifically, in the automotive parts manufacturing sector which APMA oversees, shipments were in excess of \$29.0 Billion and direct employment was over 85,000 people in 2014.

Despite the strengths mentioned, Canadian manufacturers are challenged to defend the relative cost competitiveness of its products in the global market place, especially to its key market in the United States. The past relative strength of the Canadian dollar vs. the US dollar forced companies to be increasingly focused on continuous improvement and cost reduction strategies to maintain relative cost competitiveness. Most recently, the Canadian dollar has dropped in value vs. the US dollar, which may assist in addressing some cost competitiveness factors. While Canadian manufacturers may not be the lowest cost producers globally, in many cases they remain the best value based on superior engineering

capabilities, innovative thinking and an exceptional, highly skilled labour supply, when all factors are taken into account.

The Canadian industry is part of a dynamic, fully integrated North American market. Historically, the North American market has produced vehicle volumes approximating 16 million, however, the recession of 2007-2008 in the U.S. led to a precipitous drop in sales, and production significantly dropped to a low of 8.6 million. This led to a significant drop in profitability, sustainability, employment and restructuring in the sector.

While we have seen a significant recovery over the last few years, NAFTA's largest market, the United States, now posting good job growth, continues to remain somewhat challenged with reference to the quality of well-paying full time jobs and new capital investment. Canada faces a decline in vehicle production negatively impacting the supply base and Mexico continues to attract significant new investment to the detriment of the northern half of North America. There is a degree of concern for all involved in the sector in Canada in both vehicle sales and production. This uncertainty is further influenced by difficult economic challenges in Europe followed by economic slowdowns and uncertainties in Asia and most recently, the significant decline in world oil prices which will hurt many economies globally.

Canada's historical benchmark, 17 percent share of NAFTA production, is one of the measures used to gauge the strength of the Canadian industry. Over the last few years, with vehicle assembly declines in Canada, Canada's NAFTA contribution dropped by 2 percent. This will be a challenge to maintain in the medium term as Mexico overtook Canada in vehicle production in 2010 and will continue to significantly widen their lead through 2016. The United States continues to grow assembly production as well with Michigan regaining its production lead over Ontario in 2013. The percent share of NAFTA production greatly influences production volume shipment of the Canadian supply community, as there is a very high correlation between vehicle assembly plant locations and suppliers. Since Canada is not slated to receive any new significant vehicle assembly plants at this time, Canadian manufacturers may be negatively impacted.

Canadian automotive manufacturers continue to perform well in terms of quality and productivity, winning major awards annually, and benefit from a stable investment and Canadian economic climate, quality public health care system and a highly skilled workforce.

Canada is regarded as a higher-cost automotive manufacturing location, which affects both Canadian-based manufacturers and Canadian subsidiaries of foreign companies. This moderated in 2014 and for the foreseeable future as the Canadian dollar is depreciating vs. its U.S. counterpart.

As such, it is important for Canadian manufacturers to seek new opportunities globally to strengthen their corporate positions by gaining new business elsewhere where its strengths can be utilized for their own benefit and that of the Canadian economy.

### **Key Target Markets**

For automotive component suppliers, key markets are strongly influenced by vehicle assembly locations and volume of production clusters of vehicle assembly plant locations, Tier I cluster locations, localization of content rules, advanced technology and engineering opportunities.

Vehicle assembly locations are a strong indicator of which markets to focus on for Canadian suppliers. Depending on the suppliers' product offering determines whether exporting, partnership/joint venture or direct manufacturing investments in foreign countries should be pursued (*for example, China, Europe, Mexico and the United States*).

Additionally, vehicle assembly requires significant supply chain resources. As a result of *Just in Time* inventory management processes, the primary suppliers are generally located in close proximity to assembly plants. Accordingly, markets where vehicle assembly is growing generally dictate key target markets for suppliers for investment, partnerships and export (*for example, China, India, Europe, Brazil, Mexico, Southeast United States, mid-west United States and Canada(Southern Ontario)*).

Vehicle companies with growing assembly production become targeted potential customers for suppliers. Wherever assembly plants are located, dictates the global market of interest to suppliers through exports or partnerships (*General Motors, Fiat/Chrysler, Ford, Toyota, Honda, Volkswagen, BMW to name a few*). Clusters of vehicle assembly plants in a region provide greater economies of scale for a supplier to enter that market. Since the typical vehicle platform has a life span of 5-7 years, with the increasing numbers of vehicle platforms, suppliers will not hesitate to invest capital resources to secure this business, as they have done in recent years in South-east United States, China, and Mexico most recently.

Technology, testing and research and engineering centres of vehicles and Tier I companies also help influence potential suppliers for market entry and activities (*Michigan, United States; Russelsheim, Germany; Stuttgart, Germany; Torino, Italy*).

### **Strategic Priorities**

APMA seeks to create global marketing initiatives to help Canadian manufacturers to engage in leading markets based on strategic data obtained.

#### Short Term:

1. *Provide direction for the development of APMA as an efficient and capable resource for information on trade and investment opportunities.*
2. *Identify specific market needs to make APMA and its members aware of opportunities and threats through electronic and information sharing methods (i.e. web site, communications, conferences and seminars, etc.)*
3. *Bring forward emerging technological developments and engineering advancements to potential customers in key global automotive markets.*
4. *Represent membership to OEMs, globally on relevant issues such as pricing, localization rules, warranty, sourcing, etc.*

#### Medium term:

1. *Change the mind set of small to medium size enterprises (SME) to more actively engage in global market initiatives with APMA and its government partners.*
2. *Grow Canadian SME revenues and strengthen their competitive positions globally, which will grow Canada's trade and export.*

### Tactical Actions:

Continually expose companies to global opportunities beyond the NAFTA Region market.

- *Focus suppliers, governments and key industry stakeholders on the need for innovation as a key competitive success factor*
- *Trade show participation (organize Canadian Pavilion exhibits) at cost competitive rates*
- *Supplier and Innovation Days targeted directly at specific companies or country regions*
- *Proactively advance Canada's brand and core competencies in the automotive sector globally through EDC and the Trade Commissioner Service*
- *Coordinate Business to Business (one to one) meetings between Canadian and foreign company executives at all international events APMA participates in*
- *Host incoming missions and information seminars for Canadian companies in Canada*
- *Offer targeted events, seminars and speaker sessions to educate Canadian companies*

### Results and Measurement:

Results will be measured and monitored on all activities initiated. Participants on all trade initiatives are surveyed for their feedback to gauge effectiveness and satisfaction levels as part of the process. In addition to gauging general organization and satisfaction levels, other key results include:

- *Number of companies and participants participating*
- *Measure how well Canada's brand is perceived in foreign markets*
- *Grow the number of qualified contacts made*
- *Increase business leads generated*
- *Grow Canadian companies' business in foreign markets*

Updated and Approved by APMA's Board of Directors, Toronto, Ontario

January 14, 2016