



**Canadian
Manufacturers &
Exporters**

Canada's Leading
Business Network

**Manufacturiers et
Exportateurs du
Canada**

Le réseau d'affaires
par excellence du Canada

Canada's Excellence Gap

**Benchmarking the Performance of Canadian
Industry against the G7**

Presented by
Jayson Myers
Chief Economist
Canadian Manufacturers & Exporters



**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**

CANADA'S EXCELLENCE GAP

Today manufacturers compete around the world on the basis of their costs, the quality of their products and services, the time required to deliver their products to market, and their ability to meet diverse and exacting customer demands. They have to be highly efficient, innovative, fast, and flexible in order to continuously drive productivity improvements. Their competitiveness is determined not only by their ability to secure market share, but also by their capacity to sustain their advantage in the face of intense competition. They have to be profitable, and they have to continue to invest in new products, new processes, new skills and new technologies in order to survive and grow under rapidly changing market conditions.

Manufacturers in Canada are part of the global market. Their success depends on their ability to compete with the best companies in the world. Yet, when benchmarked against industrial performance in other leading economies, Canada's manufacturing sector is falling behind. A significant *excellence gap* has opened up between world-class practice and the average performance of Canadian industry.

The Excellence Gap

Canada's excellence gap is illustrated by benchmarking the performance of Canadian industry against the best of the world's seven leading economies, using a number of indicators crucial to the competitive success of manufacturers worldwide. The Group of Seven (G7) industrial economies includes Canada, the United States, Japan, Germany, France, Italy and the United Kingdom. Canadian performance over the past five years, from 1995 to 2000, is measured in relation to best practice in the G7, as a percent of the G7 leader, over the same period of time. The benchmarks of competitive success are based on annual averages and include:

- Growth in industrial production;
- Growth in manufactured exports;
- Change in manufacturers' selling prices;
- The rate of improvement in labour productivity;
- Change in unit labour costs;
- After-tax profit margins;
- Industrial investment in machinery and equipment as a percent of GDP;
- Industrial investment in research and development as a percent of GDP;
- Industrial investment in skills training as a percent of payroll costs; and
- The rate of new product commercialization, measured in terms of the value of patents filed internationally as a percent of GDP.

An overall performance rating can be calculated as an average across all benchmarks of competitive performance. The excellence gap is the difference between this rating and a perfect score of 100%.



**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**

How Does Canadian Industry Compare?

Indicator	G7 Leader	G7 Benchmark	Canada
Production	United States	4.2%	96%
Exports	United States	11.2%	85%
Prices	Japan	-1.5%	52%*
Productivity	United States	4.3%	56%
Unit Labour Costs	United States	1.2%	72%
Profitability	United States	7.4%	67%
Capital Investment	United States	8.6%	63%
R&D	Japan	3.6%	24%
Skills Training	Japan	4.1%	35%
Commercialization	United States	1.2%	36%
Average	G7	100%	62%

* Percent calculated across range of G7 performance.

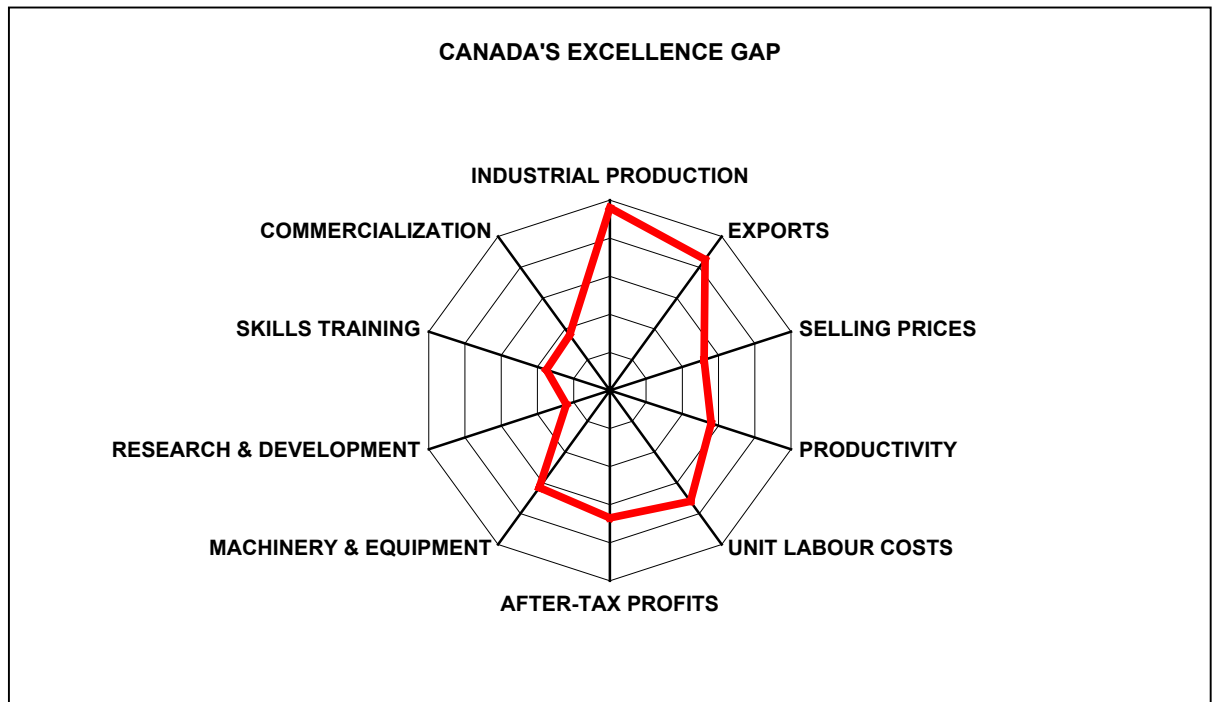
Canada's manufacturing sector performs on average 62% as well as the best of the G7. Our excellence gap is 38% of G7 best practice. Canada, in fact, turns in the lowest performance rating—and thus the highest excellence gap—of any of the world's major industrial economies when all benchmarks are taken into account. Our major trading partner, the United States, leads the world in terms of the competitiveness indicators used in the analysis, standing at the head of the G7 in seven out of ten performance benchmarks with an average rating of 94%—an excellence gap of only 6%. Japan comes in second with an average score of 82%, and the European economies range from 78% down to 72%.

Canadian manufacturers are relatively competitive when it comes to production and export growth, but less so in terms of productivity, profitability and investment. And there is a significant gap with respect to innovation, including training, research, development, and the commercialization of new products. There has, in other words, been less of a tendency in Canada to compete on the basis of new products, new processes, and new skills, and greater reliance on other factors such as the low Canadian dollar, slower growth in labour costs and, until recently, strong U.S. market demand.

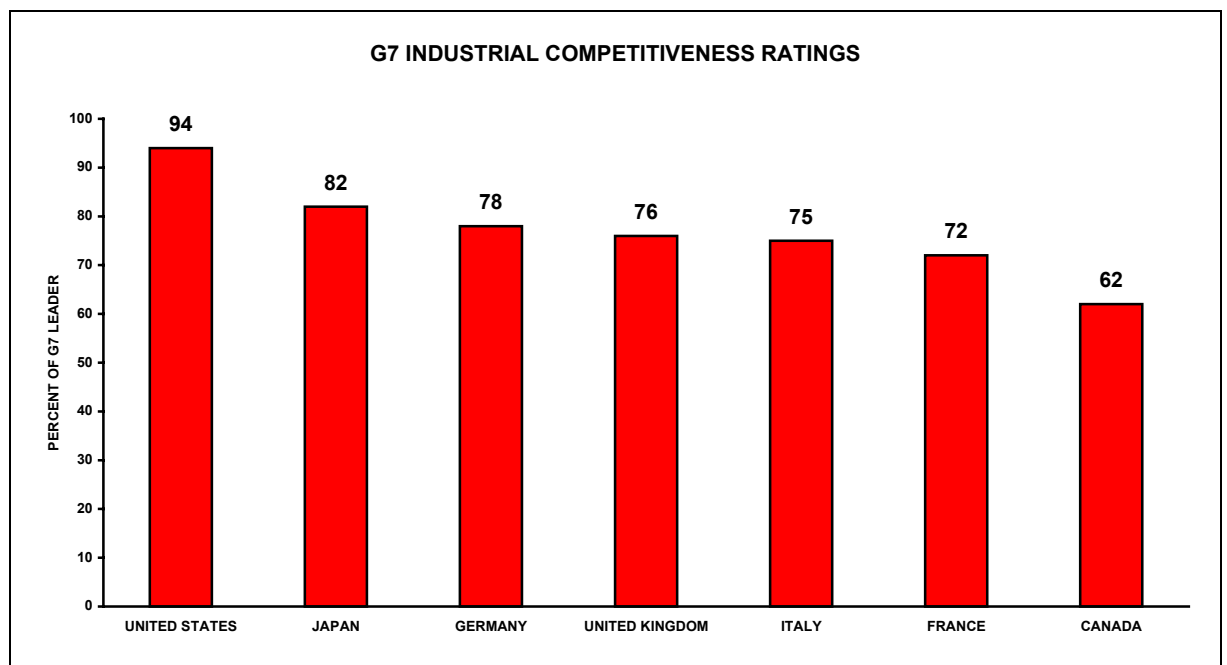


**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**



Charts are based on data from: Statistics Canada, Organization for Economic Cooperation and Development, International Monetary Fund, the European Innovation Monitor, the International Institute for Management Development and the World Economic Forum.





**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**

Closing the Excellence Gap

The challenge facing Canadian manufacturers is to close the excellence gap—before their competitors close them. The realities of the market today—intense international competition, the rapid pace of technological development, and the ease with which information, investment, and knowledge flow around the world—mean it is more important than ever for companies to strengthen competitive capabilities based on productivity and innovation. There are many world-class companies manufacturing in Canada today. There should be more.

The health of the Canadian economy and the incomes of all Canadians will depend on how fast Canada's manufacturing sector can close in on world leadership. It is a challenge that must be met by each manufacturer in striving for greater efficiencies, higher value products, and operating excellence. It is also a challenge for governments in Canada—in creating a business environment that encourages investment and innovation on the part of industry. Our vision should be nothing less than making Canada the home of manufacturing excellence.