



SouthGrow
Regional Initiatives

Study of SouthGrow Business Trends

February 2008

SouthGrow Businesses



SouthGrow Regional Initiative is a member-driven, non-profit regional economic development alliance for south central Alberta. Twenty-seven communities are involved in the regional initiative that serves the south central region of Alberta. SouthGrow Regional Initiative's mission is to encourage regional collaborations, focus on regional economic development issues and ensure the south central region has equal opportunity for growth and development within Alberta's global possibilities. SouthGrow Regional Initiative's economic development and investment attraction philosophy includes: Attraction, Retention, Growth and Collaboration.

- City of Lethbridge
- Town of Cardston
- Town of Claresholm
- Town of Coaldale
- Town of Coalhurst
- Town of Magrath
- Town of Milk River
- Town of Picture Butte
- Town of Raymond
- Town of Taber
- Town of Vauxhall
- Town of Vulcan
- Village of Barons
- Village of Carmangay
- Village of Coutts
- Village of Champion
- Village of Lamond
- Village of Milo
- Village of Nobleford
- Village of Stirling
- Village of Warner
- Cardston County
- County of Lethbridge
- MD of Taber
- Vulcan County
- County of Warner
- Blood Tribe

From December 1 to 20, 2008, manufacturing, value-added processing and support services businesses and organizations in the SouthGrow region were provided the opportunity to submit information about business issues and conditions they are facing as they conclude the 2008 calendar year and embrace 2009. About 15% of the businesses contacted provided information.

In order to place the information provided by SouthGrow companies into perspective with what is happening in the province and across the country, comparatives have been provided (on the outside bars on each page) based on information available from the Canadian Manufacturers and Exporters Association.

Business Sectors

Nearly half (48%) of the respondents are in the Manufacturing sector, with another 35 percent (Agriculture and Financial, Consulting and Advisory) contributing to the manufacturing sector by either supplying the sector or supporting it.

	% of Companies
Agriculture	21%
Fabricated Metal Products	14%
Financial, Consulting, Advisory	14%
Food, Beverage & Tobacco Products	14%
Municipality/Government	10%
Other	7%
Plastic, Rubber Products	2%
Computers, Electronic Products	2%
Machinery & Equipment	2%
Paper, Wood Products	2%
Printing	2%

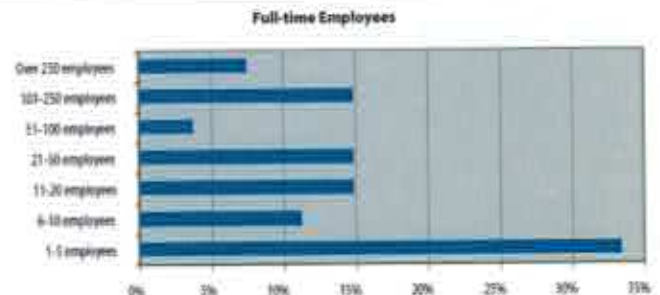
Primary Market

Half of the companies that responded define the local/regional market as their primary market. Almost an equal amount define Canada and North America (18% and 21% respectively) as their primary market.



Company Size

Respondents represented a diversity of companies in terms of company size. While a third of the companies have five or fewer employees, about 22 percent of the companies have over 100 full-time employees.



Supplier Relationships

Respondents were asked questions pertaining to their top five suppliers. The majority of suppliers were within Alberta or Canada. Forty percent of the companies had at least one supplier located in the United States. Eleven percent of the companies had at least one supplier in Mexico or Europe. Eleven percent of the companies had ownership interest in at least one supplier, showing vertical integration.

Three-quarters of the companies indicated that they have the type of relationship with suppliers through which productivity practices are dictated.

Business Outlook

SouthGrow Outlook for Production, Sales, Profit

A majority of the companies that responded expect their production volume, sales volume and profit performance to be better in 2009 compared to 2008.

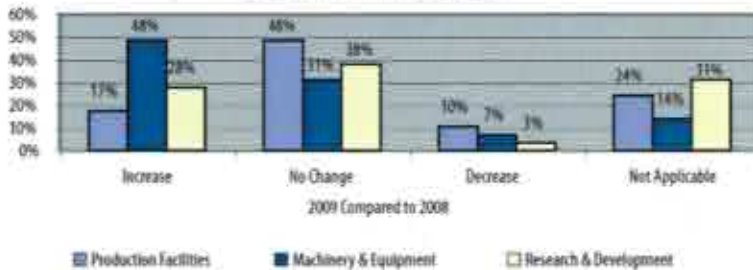
Outlook for Production, Sales and Profit



SouthGrow Outlook for Investment

Very few companies will be reducing their investment in production facilities, machinery & equipment or research & development. The majority of the companies will be increasing investment or not changing the level of investment.

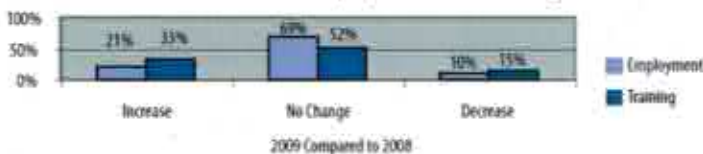
Outlook for Investment



SouthGrow Outlook for Employment and Labour

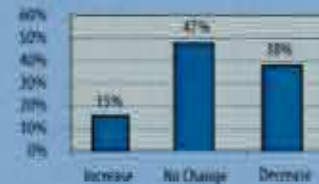
Very few companies will see their workforce or training within their companies decrease in 2009 over 2008. In fact, twice as many companies will see their workforce and training increase.

Outlook for Employment and Training

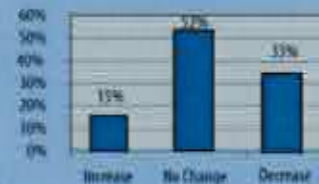


327 companies across Canada were asked by the Canadian Manufacturers and Exporters Association their views on business conditions from December 9 to 16, 2008.

Nationally, from January to March of 2009 these companies expect jobs to:



Alberta companies responding expect jobs for the period January to March 2009 to:



Employment & Labour



Canadian Manufacturers and Exporters Association asked 1,260 companies across the country to comment on skills and human resources as they move into the 2009 calendar year.

Their top five types of training undertaken by companies are:

- ▶ Orientation of new employees (69%)
- ▶ Health and safety (65%)
- ▶ Technical skills (63%)
- ▶ Leadership/management skills (40%)
- ▶ Computer skills (39%)

Nationally, the top five workforce skills in need of improvement are:

- ▶ Problem solving (38%)
- ▶ Technical skills (35%)
- ▶ Verbal communication (27%)
- ▶ Basic employability skills (26%)
- ▶ Teamwork (24%)

Nationally, 76 percent of the companies reported experiencing problems in attracting and/or retaining skilled and experienced personnel. The top three consequences of skilled labour shortages are:

- ▶ Specific skills shortages constraining growth (31%)
- ▶ Experiencing shortages but not a constraint on growth (30%)
- ▶ Significant increases in labour costs (26%)

SouthGrow In-House Training

SouthGrow companies offer varying degrees of in-house training:

	% of Companies
Orientation of new employees	75%
Health & safety	71%
Technical skills	64%
Teamwork	54%
Lean/continuous improvement	46%
Customer service	43%
Leadership/management skills	39%
Computer skills	32%
Communication skills	32%
Literacy/math skills	14%
Other	14%

SouthGrow Skilled Labour Shortage

About 55 percent of the companies are experiencing problems in attracting and/or retaining skilled and experienced personnel.

For those companies that are experiencing problems, the top three consequences of the skilled labour shortage are:

1. Competing for labour with other businesses/sectors
2. Significant increases in labour costs
3. Specific and general skill shortages are constraining growth

Other consequences cited were that firms were required to improve operational efficiency, invest in automation, and deal with less than ideal quality.

The top five areas that companies were experiencing shortages are with:

1. Entry level positions
2. Equipment operator positions
3. Sales and marketing positions
4. Crafts workers
5. Trades such as machinists, welders and electricians

In order to address future labour needs, SouthGrow companies are taking the following actions:

	% of Companies
Upgrade skills of current employees	46%
Implement workplace practices to encourage retention	39%
Hire younger people	29%
Increase degree of automation	25%
Increase emphasis on recruitment	25%
Attract personnel from other companies	18%
Recruit workers directly from abroad	18%
Simplify business processes	14%
Outsource functions to other Canadian firms	14%
Hire recent immigrants with foreign training	11%
Outsource functions outside of Canada	11%
Alliances with other companies	11%
Reallocate work assignments	11%
Other	11%
Hire more people from the Aboriginal Community	7%

The workforce skills most in need of improvement in companies are:

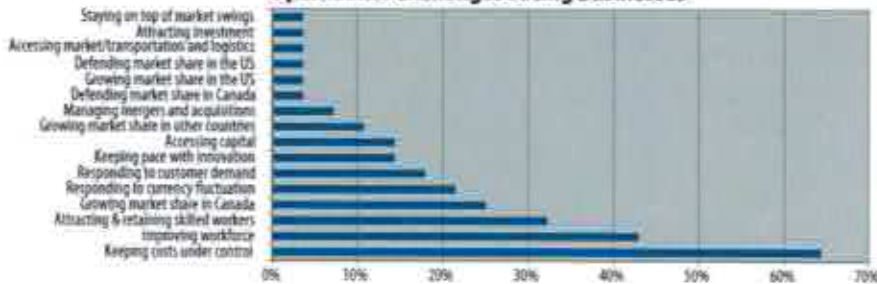
	% of Companies
Technical skills	44%
Problem solving	33%
Supervisory/management	33%
Innovation/creativity	33%
Learning/flexibility	33%
Team work	30%
Verbal communication	30%
Reading/writing	22%
Interpersonal	22%
Project management	22%
Lack of credentials/adequate certification	22%
Basic employability skills	11%
Entrepreneurship	11%
Computer	11%
Math	11%
Other	11%
(e.g. PLC Programming & Automation Controls)	11%
Read/translate technical drawings	4%
Trades proficiency	4%

Challenges and Determinants



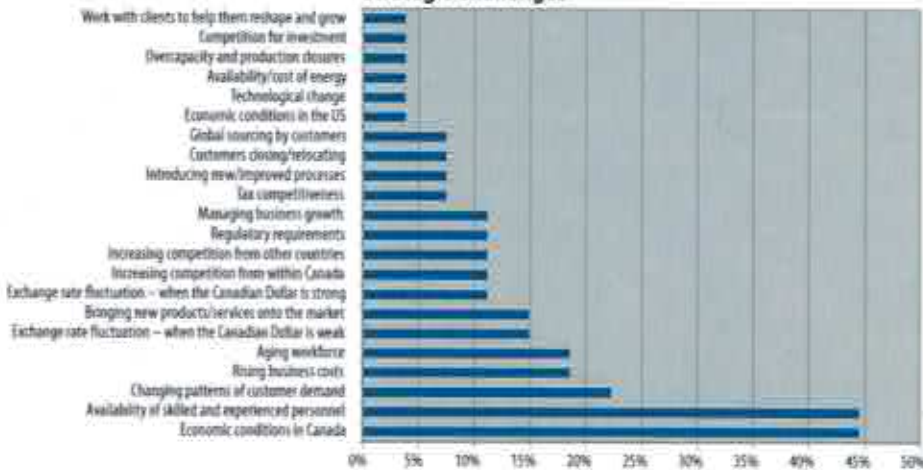
Most SouthGrowth companies that responded cited keeping costs under control as a key operational challenge facing business operations. This was followed by improving workforce productivity and flexibility as well as attracting and retaining skilled workers.

Operational Challenges Facing Businesses



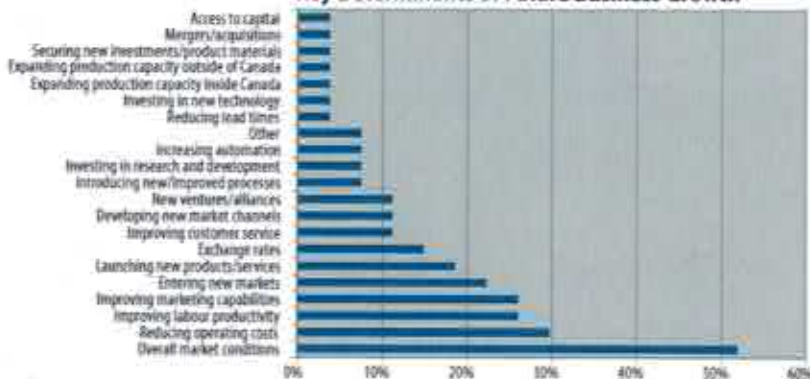
The top three strategic challenges companies face that will reshape their business over the next three to five years are: economic conditions in Canada; availability of skilled and experienced personnel; and changing patterns of customer demand.

Strategic Challenges



The three most important determinants of future business growth for companies was the overall market conditions and reducing operating costs, followed by an equal number of respondents indicating improving labour productivity and improving market capabilities.

Key Determinants of Future Business Growth



Canadian Manufacturers and Exporters Association asked 1,260 companies across the country to comment on challenges as they move into the 2009 calendar year.

Their top five operational challenges are:

- ▶ Keeping costs under control (57%)
- ▶ Responding to dollar appreciation (41%)
- ▶ Downturn in the US economy (39%)
- ▶ Energy costs and reliability of supply (32%)
- ▶ Attracting and retaining skilled workers (31%)

The top strategic challenges are:

- ▶ Increasing costs of doing business (59%)
- ▶ Higher cost of materials (56%)
- ▶ Higher energy costs (55%)
- ▶ Economic conditions in the US (52%)
- ▶ Economic conditions in Canada (51%)

The top key determinants of future business growth and profitability are:

- ▶ Managing material costs (59%)
- ▶ Overall economic conditions (58%)
- ▶ Developing new markets (53%)
- ▶ Reducing operating costs (53%)
- ▶ Improving customer service (44%)
- ▶ Launching new products/services (44%)

Continuous Improvement



Canadian Manufacturers and Exporters Association asked 1,260 companies across the country to comment on continuous improvement as they move into the 2009 calendar year.

Their top five constraints on performance improvement are:

- ▶ Cost (43%)
- ▶ Limited resources (42%)
- ▶ Lack of time (40%)
- ▶ Lack of qualified personnel (32%)
- ▶ Market uncertainty (24%)

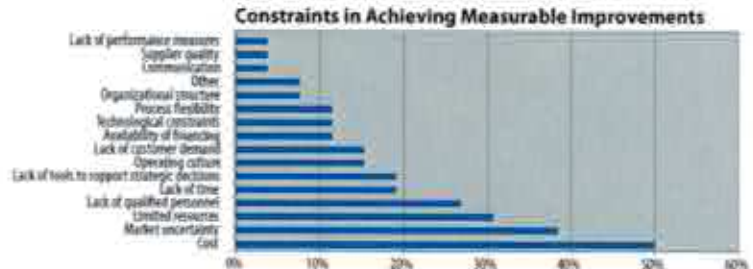
The top five areas of focus in overcoming constraints on performance improvement are:

- ▶ Upgrading employee skills (46%)
- ▶ Improving operating efficiency (42%)
- ▶ Changing operating culture (37%)
- ▶ Strengthening teamwork (37%)
- ▶ Investing in new technology (36%)

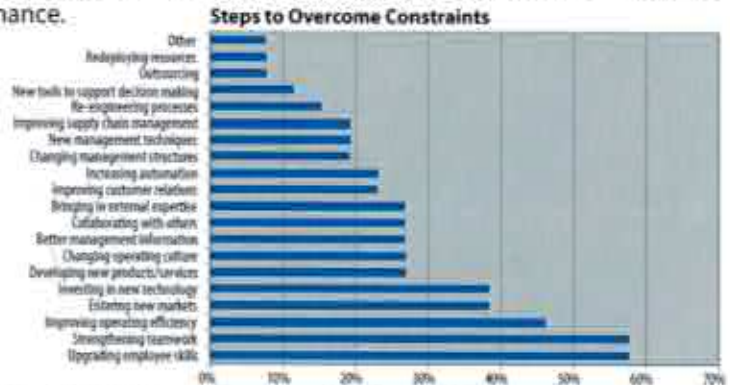
The top challenges cited as barriers to greater flexibility are:

- ▶ Seasonal demand (38%)
- ▶ Long lead times for components (27%)
- ▶ Capacity constraints (24%)
- ▶ Forecasting errors (20%)
- ▶ Internal organization (18%)

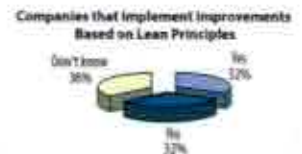
The three most important constraints that companies are experiencing in achieving measurable improvements in business performance are: cost; market uncertainty; and limited resources.



Companies are upgrading employee skills, strengthening teamwork and improving operating efficiency in order to overcome constraints faced in improving performance.



Challenges faced by companies in improving flexibility include: seasonal demand; capabilities of the workforce; the internal organization; regulatory constraints and forecasting error.



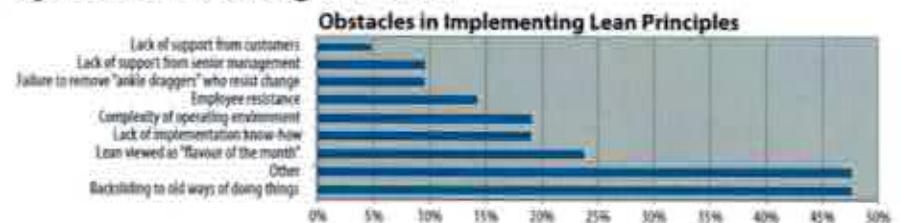
Lean Improvements

Roughly a third of the companies are implementing improvements based on Lean principles.

Of those companies that are implementing Lean improvement techniques,

- ▶ Most are utilizing 5S and Quick Changeover.
- ▶ The top benefits experienced are: employee satisfaction; improved process efficiency; waste reduction; improved customer service; and improved product quality.

The main obstacles companies have to overcome in implementing improvements based on Lean principles include backsliding to old ways, "Lean" being viewed as the flavour of the month, and the complexity of the operating environment. "Other" obstacles include the failure to look at the big picture and see things through as well as a general lack of knowledge in the area.



Innovation

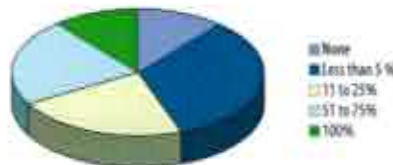
About 42 percent of the applicable SouthGrow companies that responded have had product or process innovations in the last three years.

Top five critical factors driving product innovation in companies are:

- ▶ Customer expectations
- ▶ Product design and development
- ▶ New market opportunities
- ▶ Collaboration with other businesses
- ▶ Availability of qualified personnel

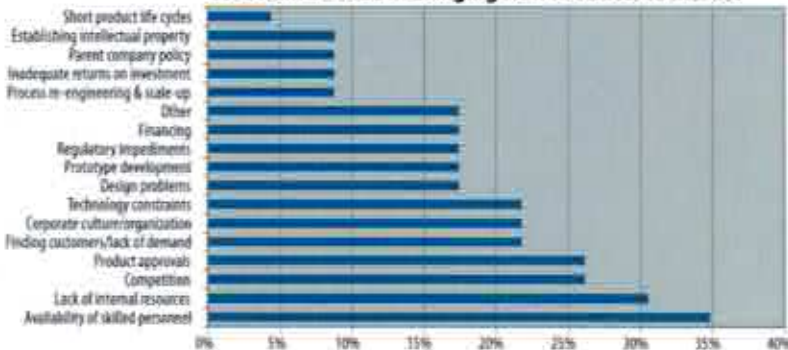
Most companies who have been innovative have realized sales as a result of products or services introduced to markets over the past three years.

Percentage of Sales Resulting From Innovations Introduced to Markets



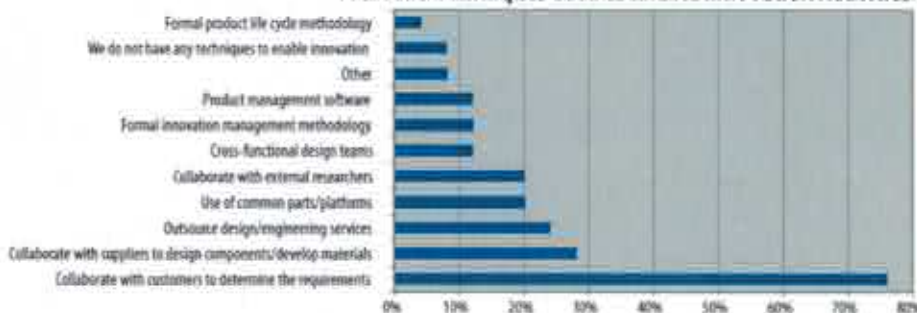
Top constraints that companies faced in bringing new products to market include: availability of skilled personnel; lack of internal resources; competition; product approvals; corporate culture or organization; and finding customers or lack of demand.

Constraints Faced in Bringing New Products to Market



By far, the most popular tool or technique used to enable innovation activities in the SouthGrow region is to collaborate with customers to define requirements. The next most utilized technique was to collaborate with suppliers to design components or develop materials.

Tools and Techniques Used to Enable Innovation Activities



Canadian Manufacturers and Exporters Association asked 1,260 companies across the country to comment on innovation as they move into the 2009 calendar year.

Their top five critical factors driving innovation performance are:

- ▶ Customer expectations (44%)
- ▶ Availability of qualified personnel (35%)
- ▶ Internal R&D resources (35%)
- ▶ Senior leadership (34%)
- ▶ New market opportunities (33%)

The top five constraints in bringing new products to market are:

- ▶ Competition (38%)
- ▶ Finding customers/lack of customer demand (31%)
- ▶ Availability of skilled personnel (28%)
- ▶ Lack of internal resources (27%)
- ▶ Product approvals (25%)



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