



Ipsos Reid



Niagara Economic Development - Determining Industry Needs Survey –

December 2013

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Background and Objectives

- NEDC works in partnership to advance the economic prosperity of the Region by promoting, advocating, and facilitating the region's business and tourism growth and competitiveness.
- The manufacturing sector forms a significant part of the economy in Niagara Region, employing over 20,000 individuals in just under 1,000 companies. However, over the past two decades the sector has been particularly hard hit as the manufacturing of goods is in transition, as many firms have moved production outside the region to other jurisdictions in North America and abroad. This transition has caused plant closures, decreasing employment, and an overall reduction in capacity in both primary and secondary manufacturing firms.
- A number of comprehensive investments have been made recently, aimed at enabling the development and identification of new supply chains, new manufacturing sectors, and promote innovation among firms to provide for the revitalization of this important employment sector. Further, NEDC has identified that few supports currently exist for established SME manufacturing firms in the Region that would enable firms to innovate, expand, and grow.
- This is likely particularly acute among smaller firms without the capacity for comprehensive research and development projects or expansion plans that would enable them to grow their client base in new products and importantly new and emerging markets.

Objectives

- The objectives of the research fall under the first phase of a comprehensive strategy directed by the Niagara Economic Development (NEDC) to target small and medium (SMEs) manufacturing firms in the Region. Namely, this research will target all firms in the manufacturing sector, with a specific focus on firms in the areas of large components, agribusiness technologies, advanced manufacturing, and green industries.
- Specifically, this research will collect, assess, and evaluate data on SMEs in the manufacturing sector concerning their needs in a number of areas, including:
 - ⇒ Readiness for change
 - ⇒ Potential for expansion and diversification
 - ⇒ Export readiness,
 - ⇒ Labour gaps and skills shortages,
- Other areas include investment in research and development, skills training, new production techniques and technologies, marketing to new clients in emerging markets.
- This research will lead to the development of a complete and all-inclusive strategy for developing tools and services designed to strengthen SME capacity in a number of key areas including:
 - ⇒ Market expansion
 - ⇒ Productivity improvement
 - ⇒ Supply chain penetration
 - ⇒ Strategic partnering



Methodology

- In total, 196 interviews were conducted with individuals from small and medium (SMEs) manufacturing firms in Niagara Region who are knowledgeable about the kind of work done by the firm or is a decision-maker.
- A sample of 196 interviews has a margin of error of plus or minus, 7.0 percentage points, 19 times out of 20. The margins of error for sub-sectors of the sample is larger, depending on the sample size.
- The survey was conducted by telephone between June 21 and July 26, 2013.
- The response rate was 21%.
- Contact information for all respondents was provided by NEDC.

Executive Summary and Key Findings

Manufacturing Product and Research and Development

- Three-quarters of firms have introduced new items, products, services or capabilities in the last five years.
- Six in ten anticipate the introduction of new items, products or services within the next two years.
- Seven in ten manufacturing firms spend some percentage of their sales on R & D, with about four in ten spending more than three percent.

Relations with Foreign Markets

- Majorities of firms say their company's primary markets and customers today are located within Ontario or locally within Niagara Region.
- A majority expect their primary markets and customers three years from now to be located within Ontario. About half report they will be located within Niagara Region specifically.
- Two-thirds of firms say their company's principal suppliers today are also located within Ontario.

Business Evolution

- Majorities of about six in ten identify developing new markets and the costs and/or availability of raw materials as the most important issues for their business today.
- Three-quarters of manufacturing firms indicate that their business will grow over the next three years, including one-third who expect it to grow by more than 10 percent. Only one in ten expect their business to contract over this same period.
- Seven in ten expect increases in business profitability and investment in machinery and equipment over the next three years. More than four in ten expect increases in investment in their facilities and in the size of their workforce in Niagara Region.

Business Evolution (*cont'd*)

- About four in ten firms say municipal taxation, the provincial regulatory environment and access to a stable cost-competitive supply of energy have worsened over the past three years.
- Vast majorities of firms indicate that business tax rates, labour costs, local business and property tax rates and supply and cost of energy are important issues when making investment decisions. Moreover, majorities of about six in ten or more say these are “very important” issues.

Finance

- About two-thirds of manufacturing firms indicate that there has been no change for their company, over the past 12 months, when looking for adequate financing.
- Traditional bank financing is the most commonly mentioned main source of financing for expansion, capital investments, or product and market development.
- Majorities of six in ten or more indicate that their company places a high level of importance on government actions, such as reducing payroll taxes and reducing local/municipal taxes.

Employment

- Most firms indicate that the projected employment needs for their company’s facility are expected to remain stable. Those who expect change are eight times more likely to expect an increase than a decrease (39% vs. 5%, respectively).

Human Resources

- Three in ten manufacturing firms say their company faces immediate labour or skills shortages.
- Skills production workers, welders, machinists or operators are most likely to be seen as the occupations that face a shortage of skilled workers currently and in the next five years.
- Most firms do training in-house, but a quarter do both in-house and external training.
- Firms use a variety of sources for labour supply, with the main current sources of labour being advertisements, word-of-mouth, employment agencies or online.

Policies

- Among firms who answered this question, majorities of six in ten point to difficulties in identifying market opportunities, difficulty finding partners or distributors or sales agents, or lack of expertise or knowledge of new markets as key barriers to expanding their business in global markets. Smaller majorities also identify production limitations, lack of internal expertise or managing exchange rates as important barriers.
- Among those who answered this question, the most significant external challenges faced by their company in expanding sales when doing business in foreign markets are competition from third countries and the foreign exchange rate.
- The most significant challenges facing their company in bringing new products or services to market are marketing, competition and manufacturing costs.
- Half of manufacturing firms say product testing and product design are important product related services for their company, while a smaller proportion of four in ten say the same about prototyping.

Policies (*cont'd*)

- A vast majority of respondents indicate that quality assurance is an important process related service for their company.
- Majorities of firms indicate that marketing strategies, marketing research and competitive analysis are important business services for their company.

Incentives, Rebates, Grants and Tax Credits

- A vast majority of manufacturing firms indicate that property tax reductions/rebates are important incentive programs to the expansion and location destinations for their company. Seven in ten say the same about local Municipal development incentives.

Transportation

- Trucks are, by far, the most commonly used means of shipping goods, with a vast majority of more than eight in ten indicating they use this form of transportation.
- For those using third party shipping, the most common location of this shipping is Niagara Region (Canada), with four in ten mentioning this location.

■ Manufacturing firms are optimistic about the future.

- Three-quarters believe their business will grow in the next three years, with one-third expecting growth of more than 10 percent.
- Seven in ten expect their profitability and investment in machinery and equipment to increase over the next three years.

■ Firms are innovative and investing in R & D.

- Three-quarters have introduced new products or services in the marketplace in the past five years, and six in ten plan to introduce new products or services in the next two years.
- Seven in ten are investing in research and development.

■ However, there are challenges.

- Developing new markets and the costs and/or availability of raw materials are seen as the most important challenges.
- Three in ten firms face an immediate labour or skills shortage. Skills production workers, welders, machinists or operators most likely seen as occupations facing current and future shortages.
- Business tax rates, labour costs, local business and property tax rates, and supply and cost of energy are the key issues when making investment decisions.

■ What supports needed?

- Important for government to lower payroll taxes and local/municipal taxes.
- Large majorities identify property tax reductions/rebates and local municipal development incentives as important incentive programs.
- Majorities of six in ten or more identify access to quality assurance, equipment training, marketing strategies, marketing research and competitive analysis as important to their company.

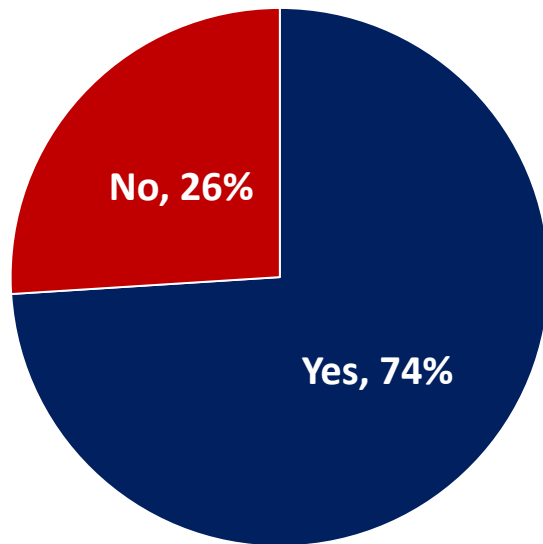
DETAILED FINDINGS

Manufacturing Product and Research and Development

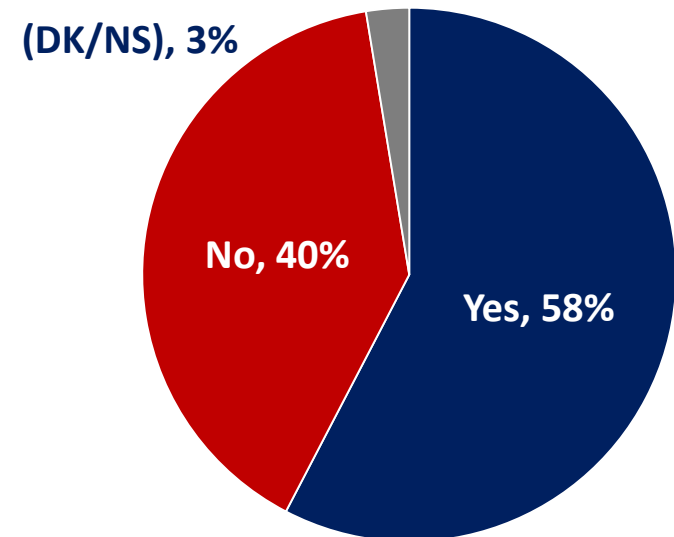
Introduction of New Products or Services

- A large majority of firms (74%) have introduced new items, products, services or capabilities in the last five years.
- Most (58%) anticipate the introduction of new items, products or services within the next two years.

Introduced new items, products, services or capabilities IN THE LAST FIVE YEARS?



Any new items, products or services anticipated IN THE NEXT TWO YEARS?



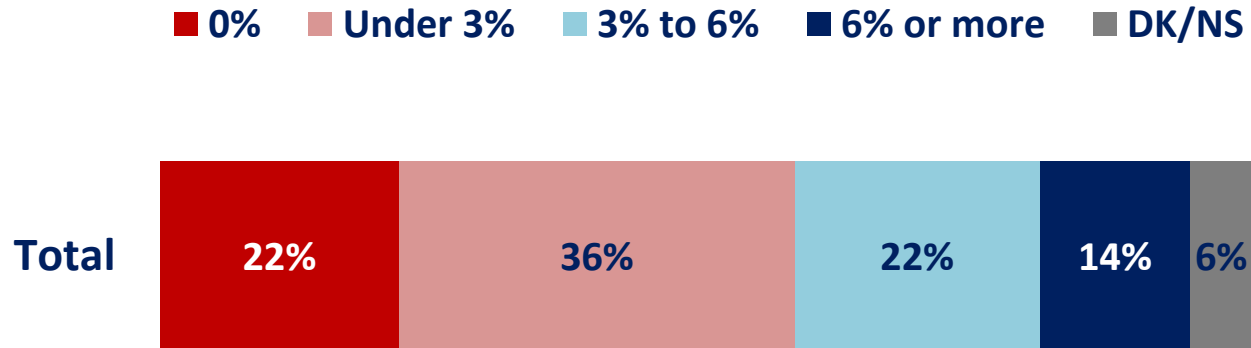
6A. Has the company introduced new items, products, services or capabilities in the last five years?

6B. Are any new items, products or services anticipated in the next two years?

Base: All Respondents (n=196)

Percentage of Sales Spent on R & D

- A large majority (72%) of firms spend some percentage of their sales on R & D, including about four in ten (36%) who spend more than three percent.

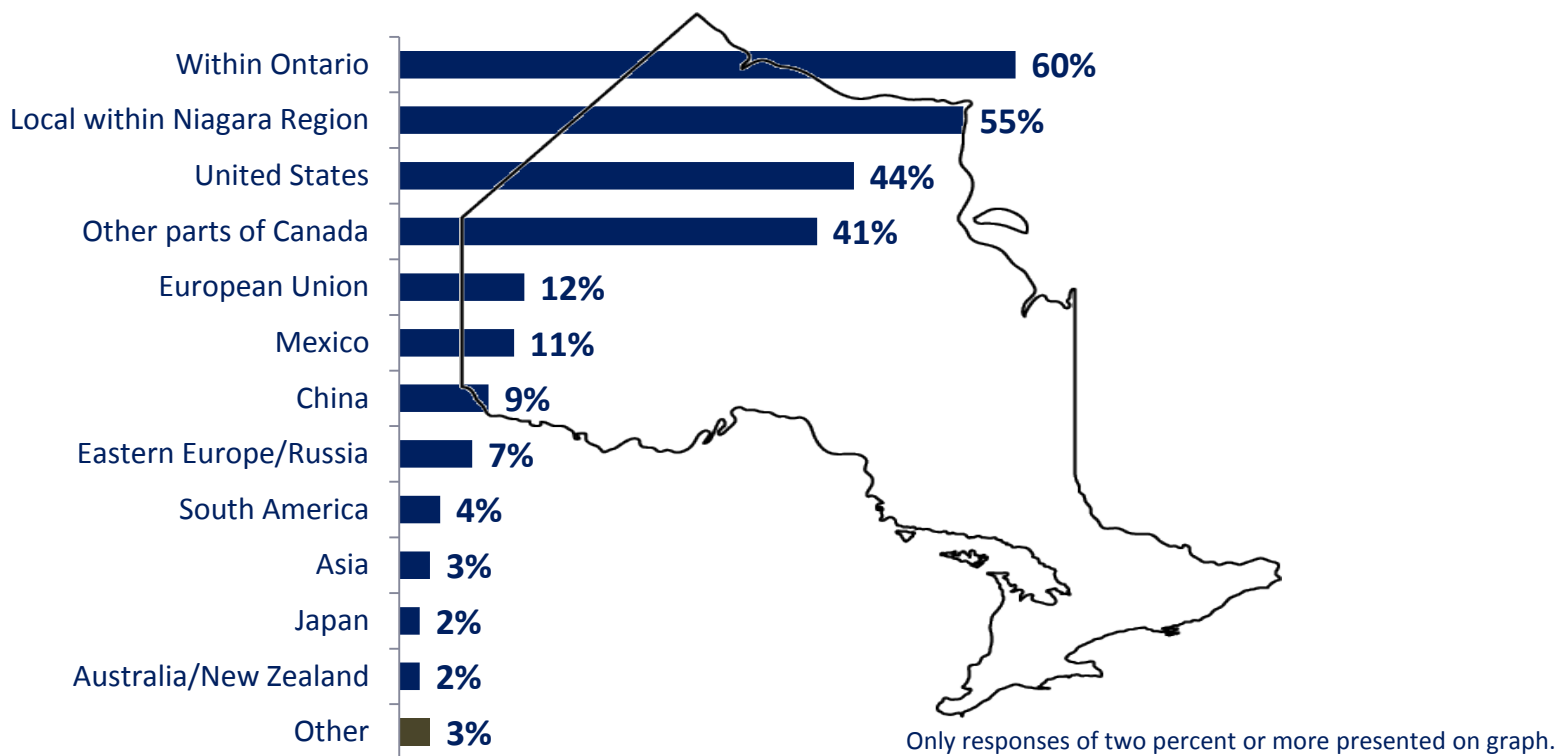


6C. As a percentage of sales, how much (if any) does your company approximately spend on research and development?
Base: All Respondents (n=196)

Relations with Foreign Markets

Location of Company's Primary Markets and Customers Today

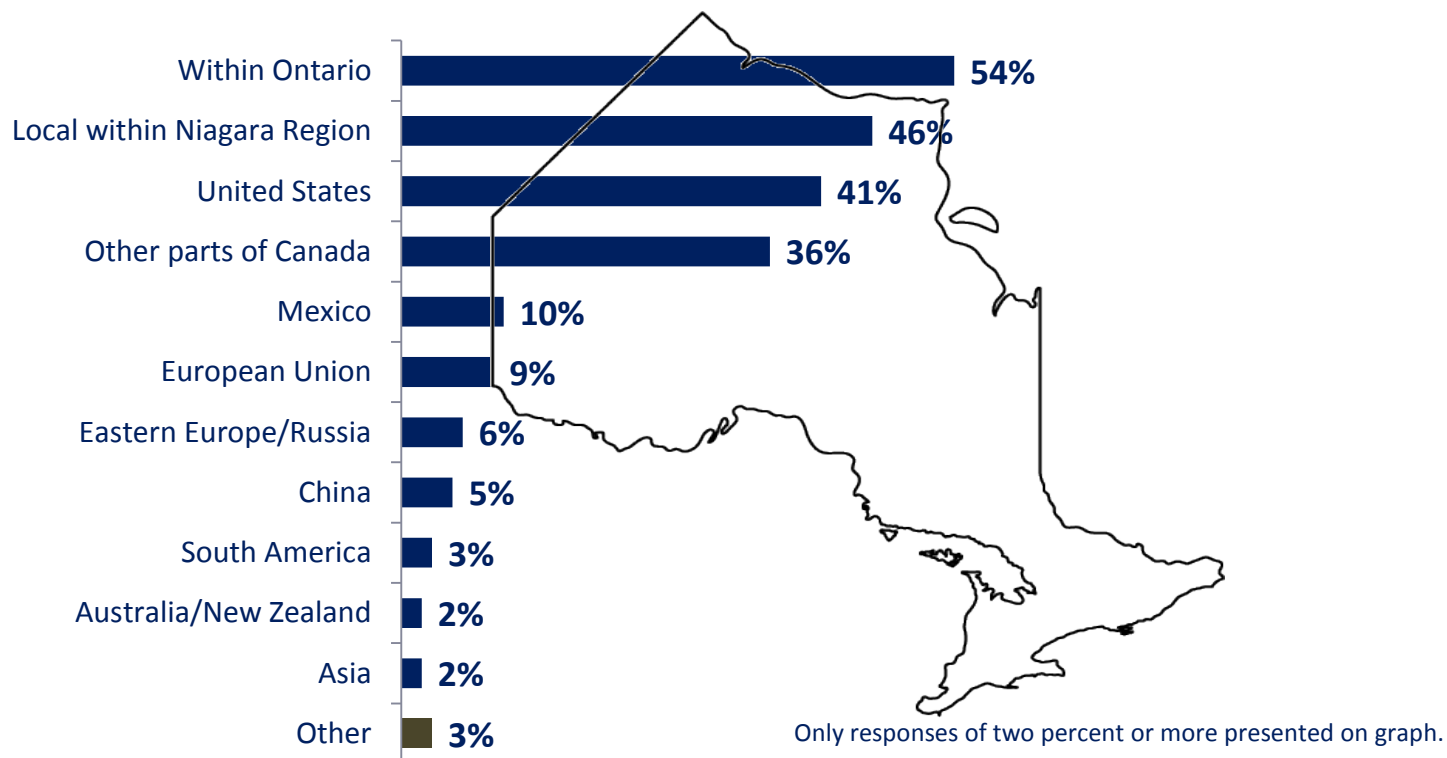
- Majorities of firms indicate that their company's primary markets and customers today are located within Ontario (60%) or local within Niagara Region (55%).
- Sizeable proportions of about four in ten each say their primary markets/customers are located in the U.S (44%) or in other parts of Canada (41%).
- Most (53%) respondents have primary markets and customers located only domestically. Four in ten (39%) have primary markets located both domestically and internationally.



7. Where are your company's primary markets and customers located today? (Respondents read response categories. Multiple responses accepted)
 Base: All Respondents (n=196)

Location of Primary Markets and Customers Three Years from Now

- Expected locations for primary markets and customers in the future tend to also be located more locally.
- A majority (54%) of firms expect their primary markets and customers three years from now to be located within Ontario. About half (46%) report they will be located within Niagara Region . Sizeable proportions of about four in ten each expect their primary markets/customers to be located in the United States (41%) or other parts of Canada (36%).
- Similar to the current picture, most (56%) respondents expect only domestic locations for their primary markets and customers three years from now. One-third (32%) expect them to be located domestically and internationally.

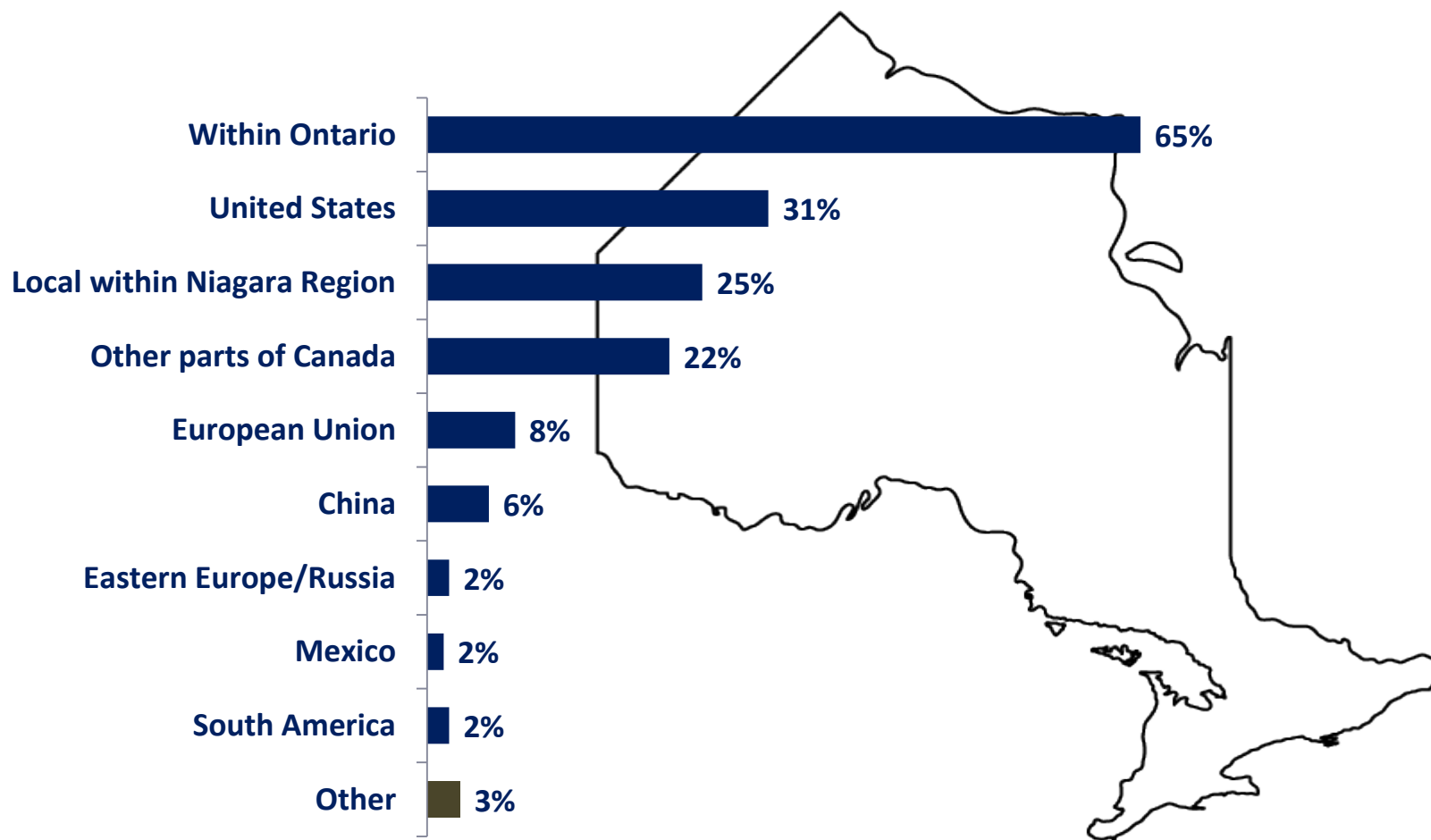


8. Where do you expect your primary markets and customers to be located in three years from now? (Multiple responses accepted)

Base: All Respondents (n=196)

Location of Company's Principal Suppliers today

- Two-thirds (65%) of firms indicate that their company's principal suppliers today are located within Ontario. Three in ten (31%) say they are located in the U.S.



Only responses of two percent or more presented on graph.

9. Where are your company's principal suppliers located today? (Multiple responses accepted)
 Base: All Respondents (n=196)

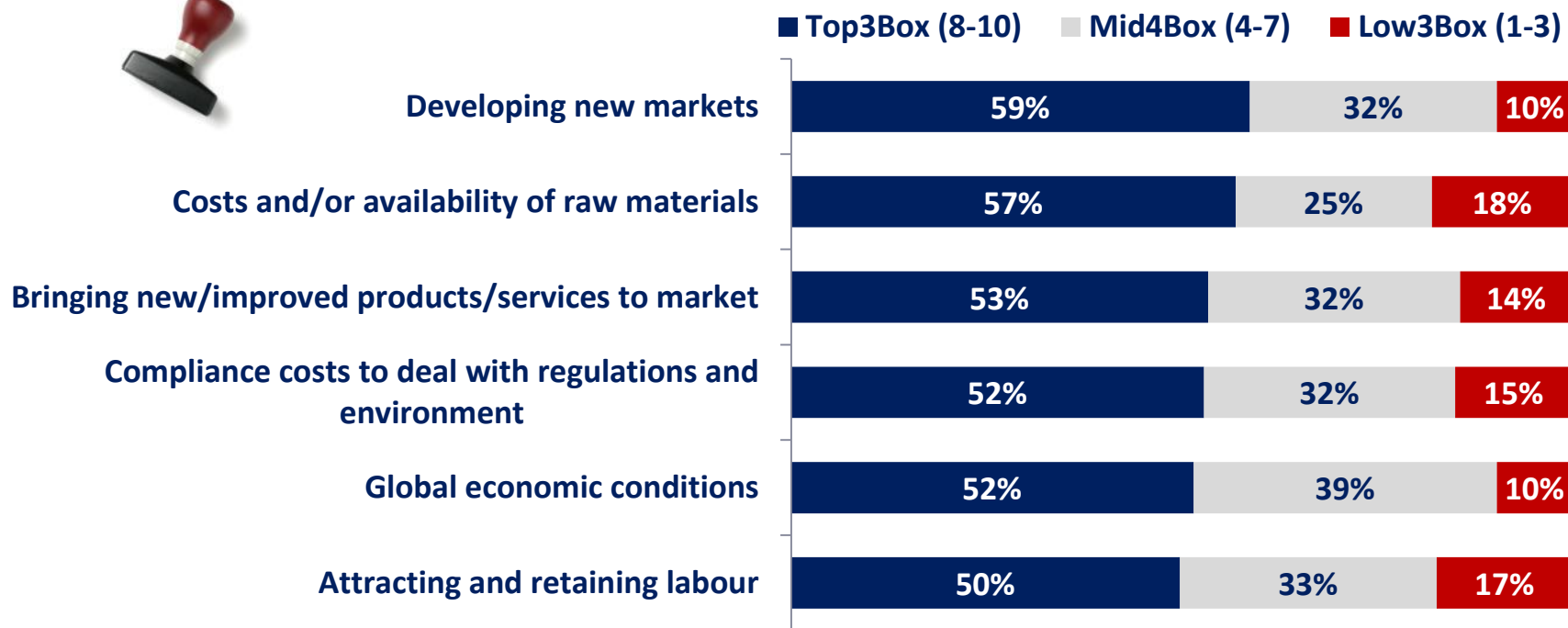


Business Evolution

Importance of Various Issues for Company Today

- Developing new markets (59%) and the costs and/or availability of raw materials (57%) are seen as the most important issues highlighted by firms for their business.
- Majorities also say bringing new/improved products/services to market (53%), compliance costs to deal with regulations and environment (52%), and global economic conditions (52%) are important to their company today.
- Half also indicate that attracting and retaining labour is an important issue for their company today.

IMPORTANT



11. Please indicate how important the following are for your company today on a scale of 1 to 10 where 1 means not important at all and 10 means extremely important. How about...?

Base: All Respondents (n=196)

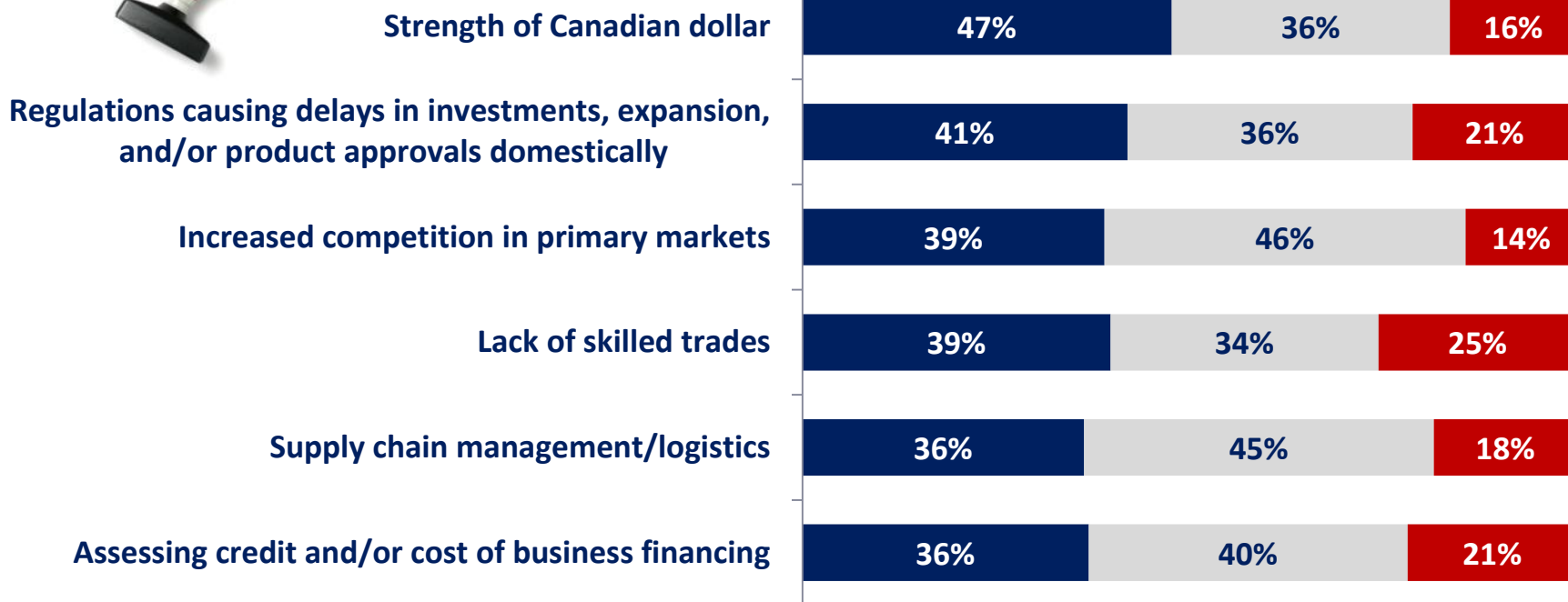
Importance of Various Issues for Their Company Today (cont'd)

- The least important issues identified by firms are supply chain management/logistics (36%) and assessing credit and/or cost of business financing (36%).

IMPORTANT



■ Top3Box (8-10) ■ Mid4Box (4-7) ■ Low3Box (1-3)



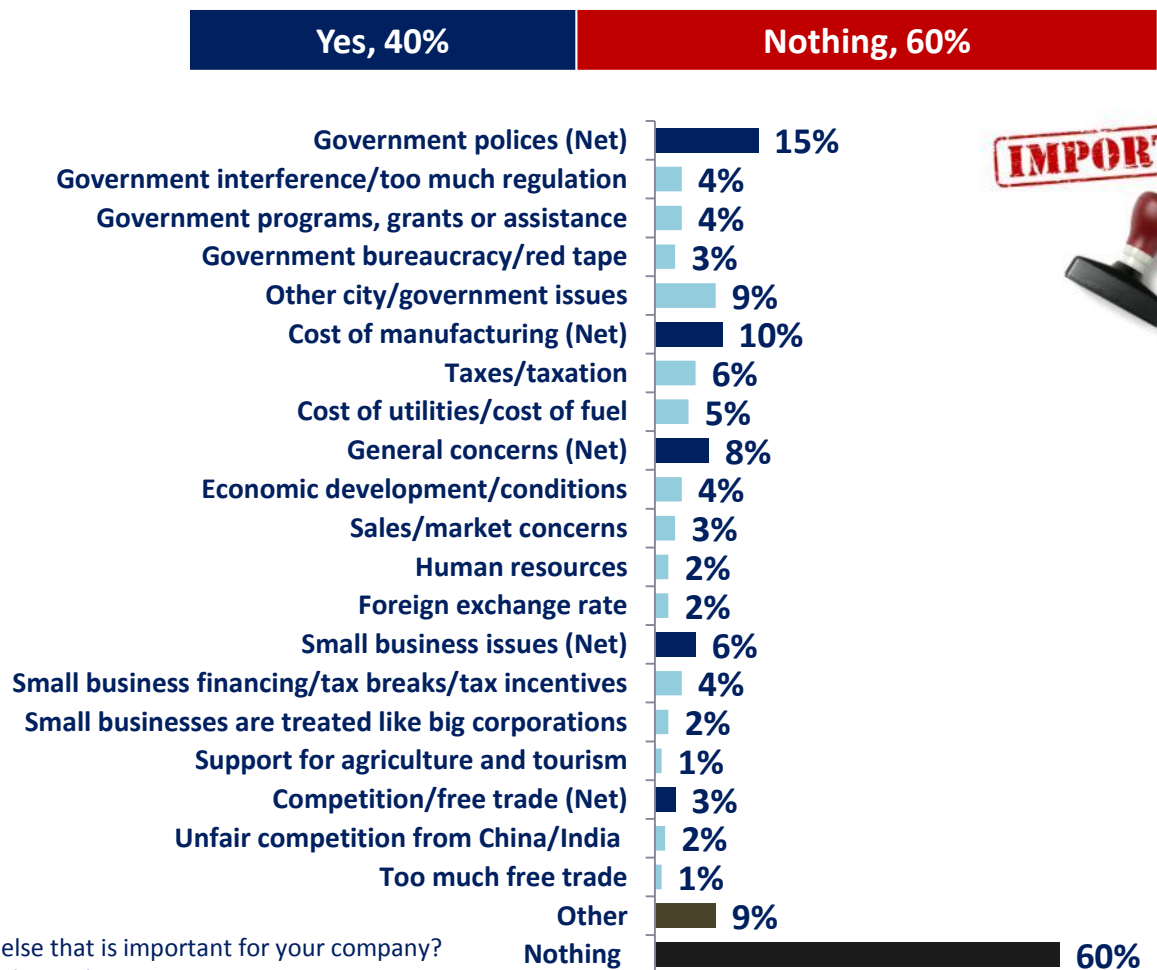
11. Please indicate how important the following are for your company today on a scale of 1 to 10 where 1 means not important at all and 10 means extremely important. How about...?

Base: All Respondents (n=196)

Other Important Issues for Their Company

- Four in ten (42%) firms say there are other issues that are important for their company.
- The most commonly mentioned are related to government policies or the cost of manufacturing.

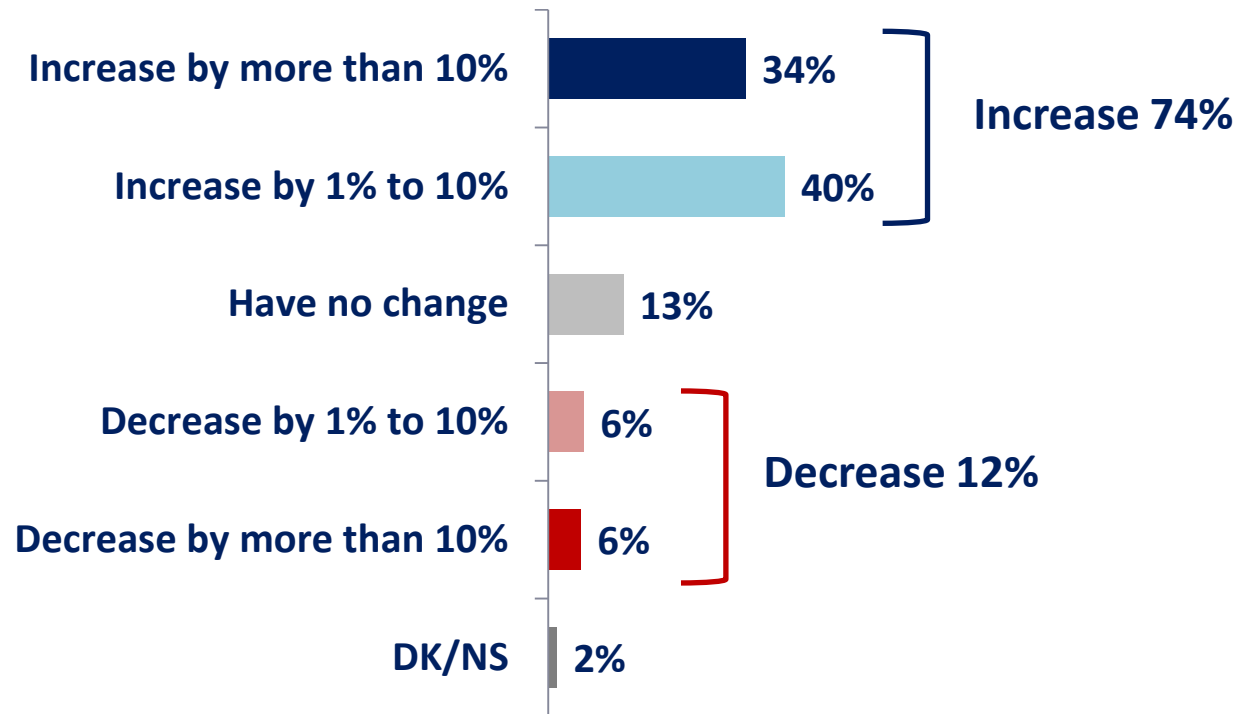
Any other important issues for your company?



11a. Is there anything else that is important for your company?
 Base: All Respondents (n=196)

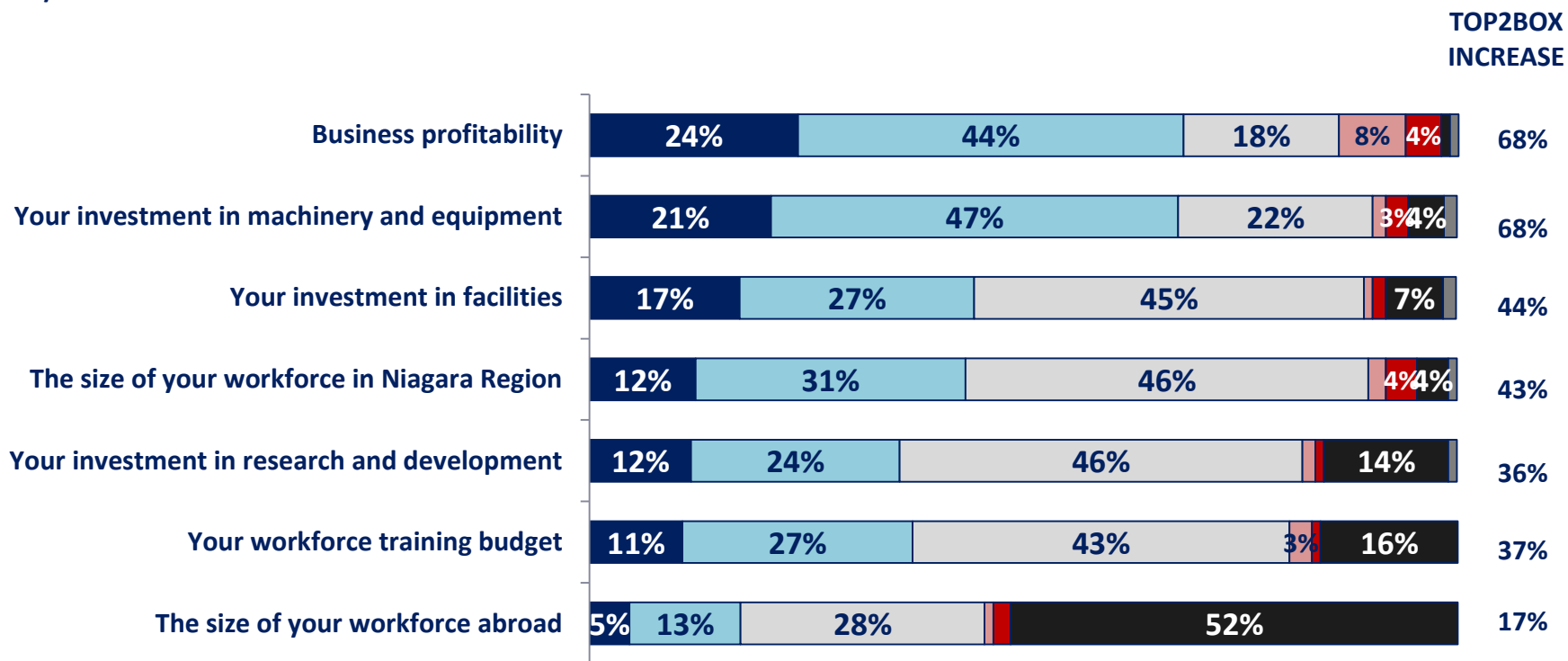
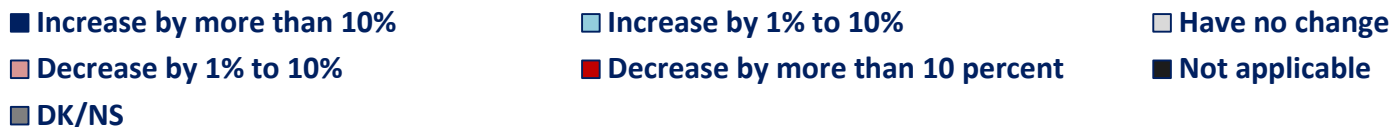
Business Outlook Over the Next Three Years

- A large majority (74%) anticipate that their business will grow over the next three years, including one-third (34%) who believe their business will grow by more than ten percent.
- In contrast, only one in ten (12%) believe that their business will contract within this time period.



Outlook for Various Aspects of Their Business Over the Next Three Years

- Large majorities say business profitability (68%) and their investment in machinery and equipment (68%) will increase over the next three years.
- More than four in ten expect increases in investment in their facilities (44%) and in the size of their workforce in Niagara Region (43%).



Less than 3% not labeled.

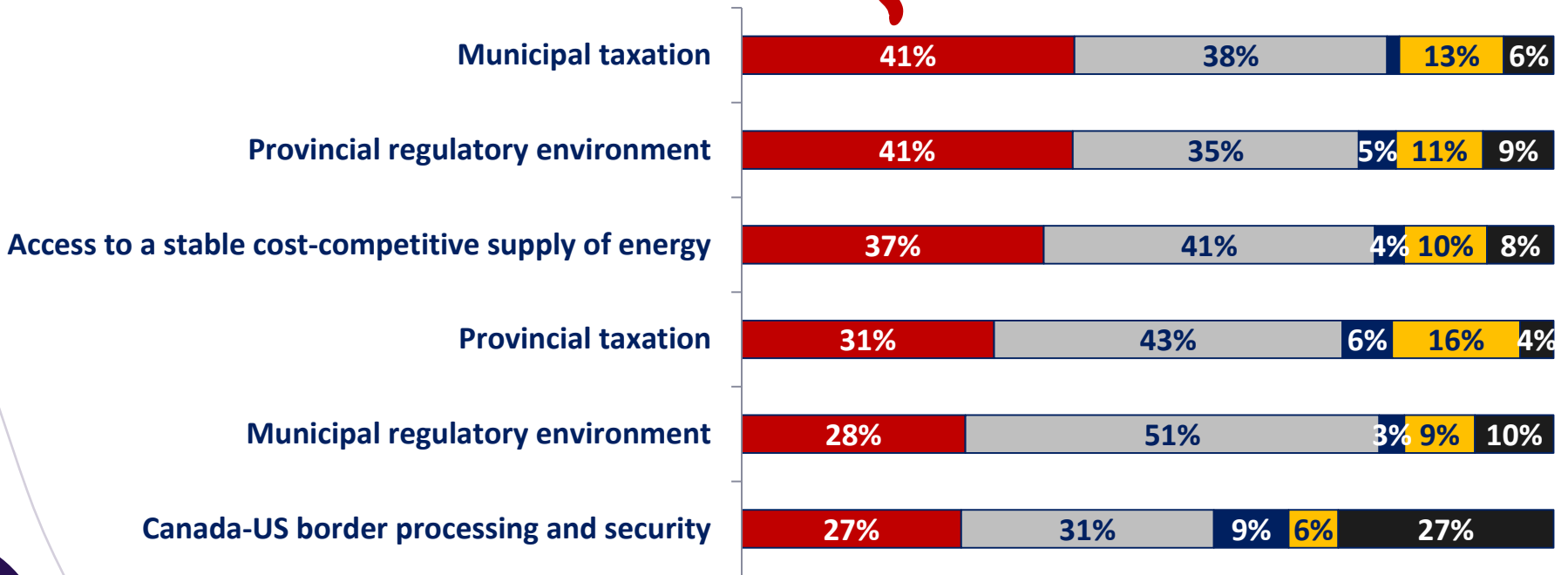
13. Using the same scale, what do you say your outlook is for the following over the next three years?

Base: All Respondents (n=196)

Perceived Change in Specific Aspects Over the Past Three Years

- About four in ten firms say municipal taxation (41%), the provincial regulatory environment (41%) and access to a stable cost-competitive supply of energy (37%) have worsened over the past three years.

■ Worsened
 ■ Had no change
 ■ Improved
 ■ Unsure
 ■ N/A



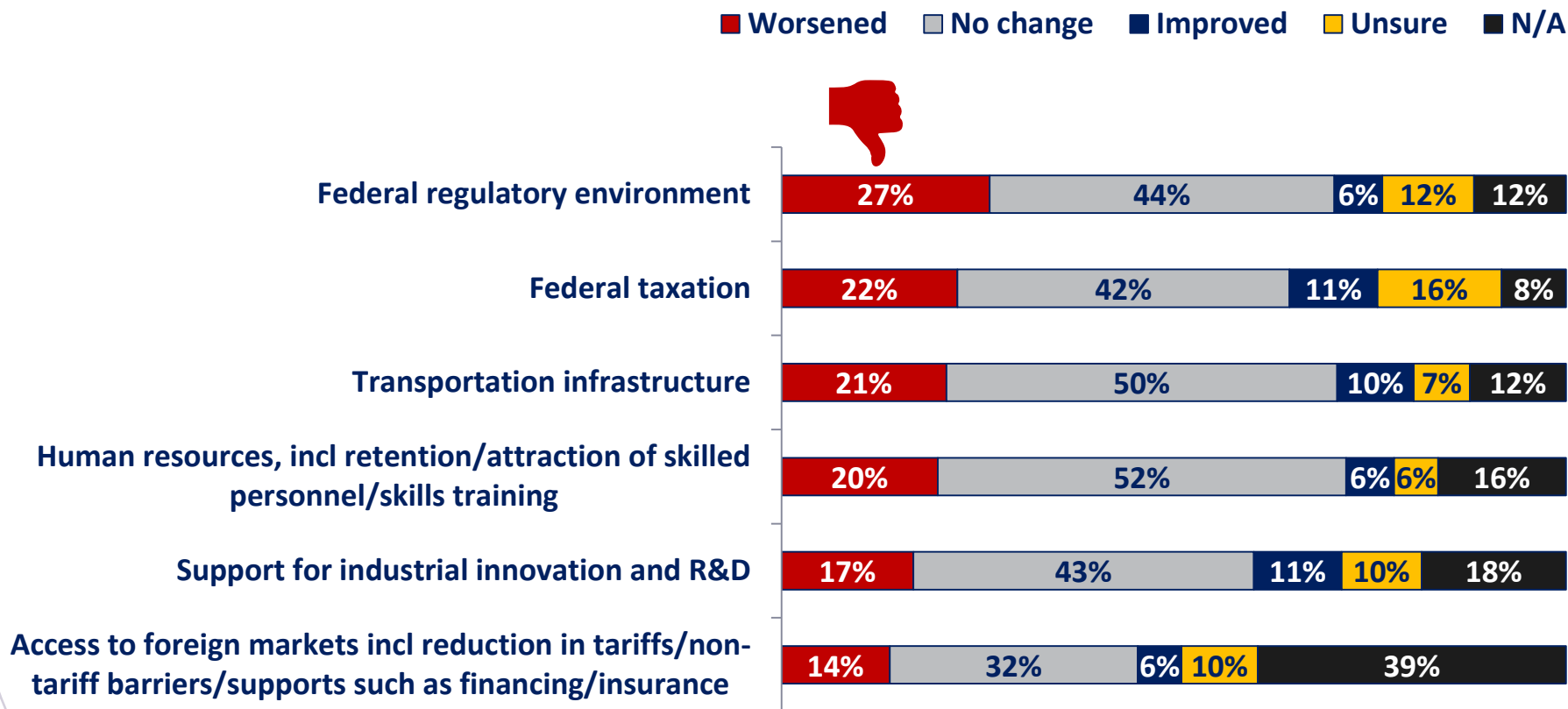
Less than 3% not labeled.

14. Over the past three years, would you say that each of the following have worsened, had no change, improved, you are unsure or is not applicable. How about...?

Base: All Respondents (n=196)

Perceived Change in Specific Aspects Over the Past Three Years

- Manufacturing firms are least likely to say support for industrial innovation and R&D (17%) and access to foreign markets (14%) have worsened over the past three years.

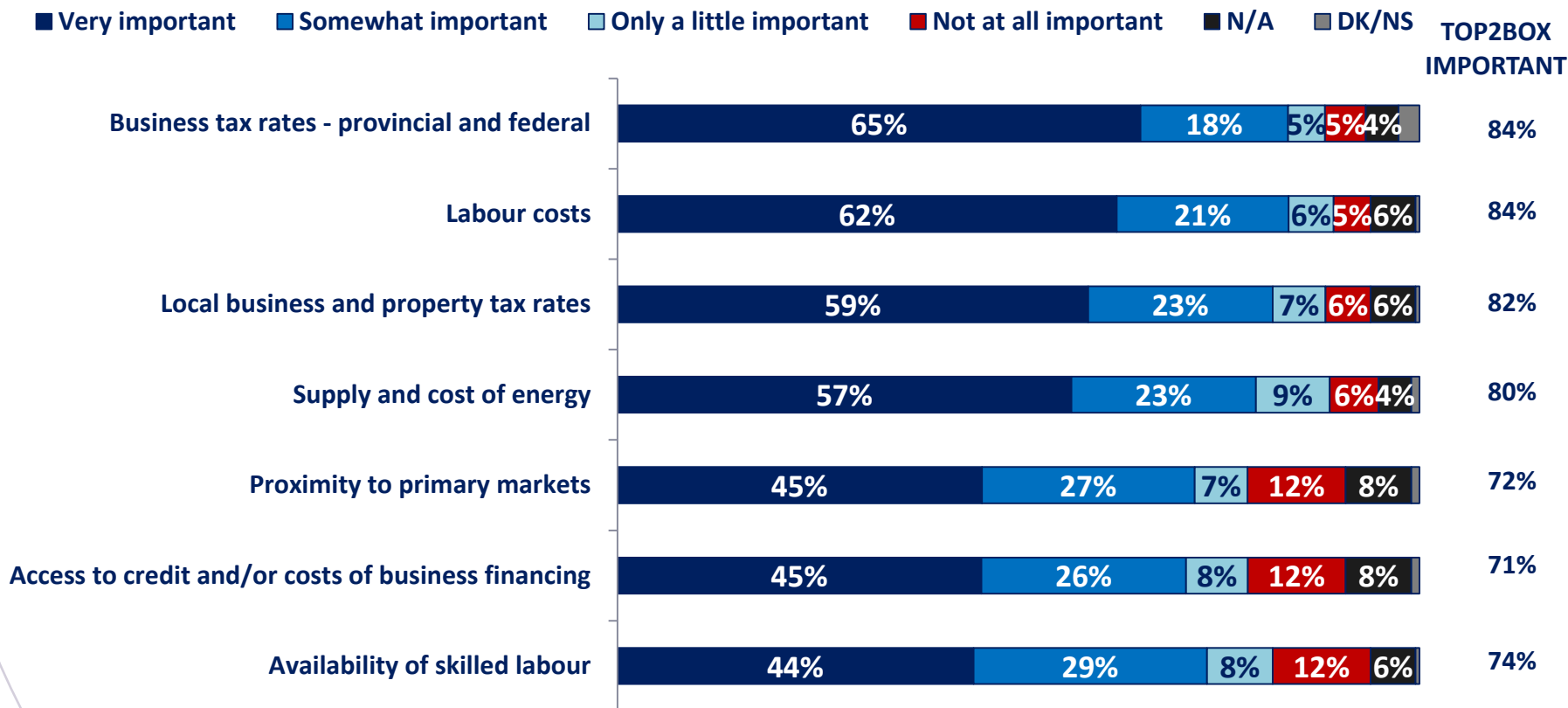


14. Over the past three years, would you say that each of the following have worsened, had no change, improved, you are unsure or is not applicable. How about...?

Base: All Respondents (n=196)

Importance of Various Issues When Making Investment Decisions

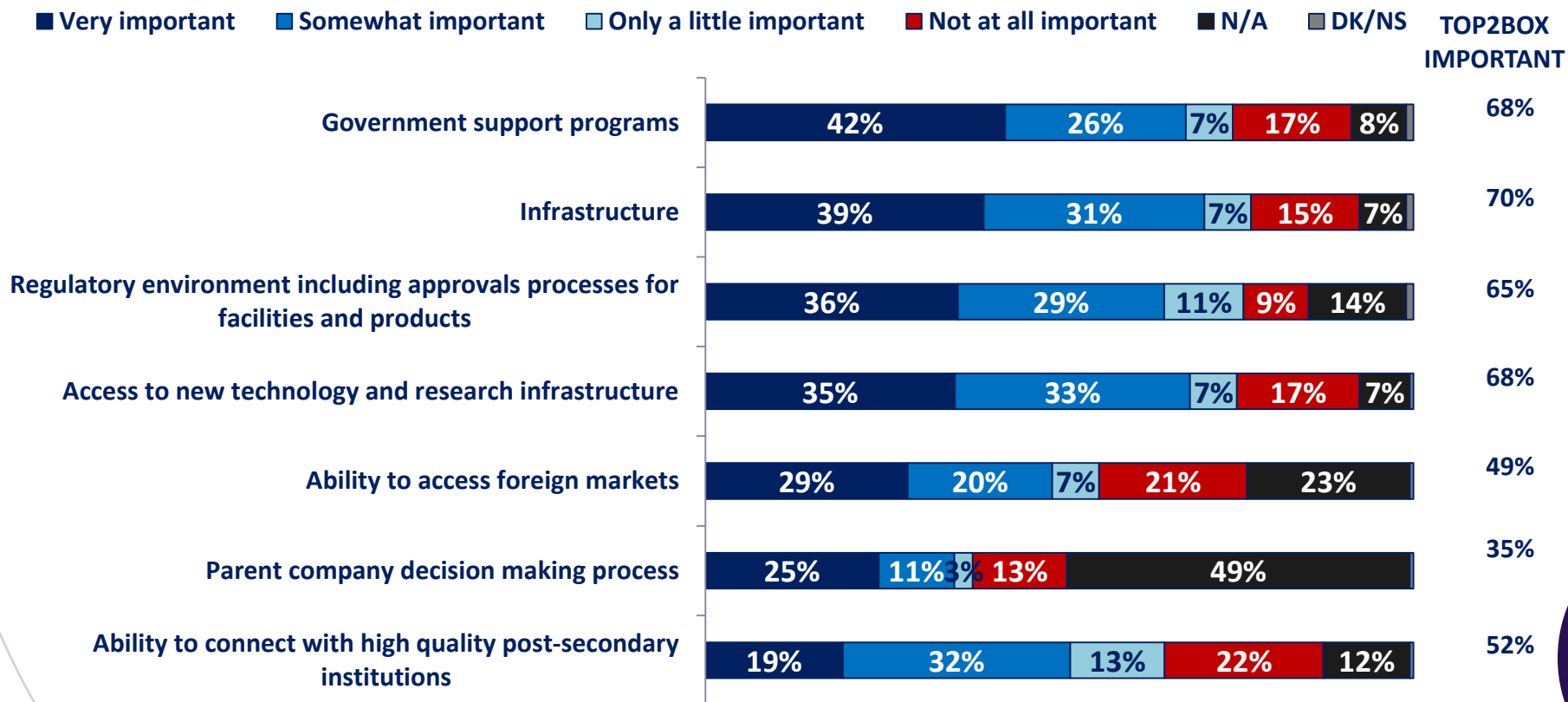
- Vast majorities of firms say business tax rates (84%), labour costs (84%), local business and property tax rates (82%) and supply and cost of energy (80%) are important issues that they consider when making investment decisions to expand. Moreover, six in ten or more consider these issues as “very important.”



15. Indicate how important each of the following are when making investment decisions to expand. How about...?
 Base: All Respondents (n=196)

Importance of Various Issues When Making Investment Decisions (cont'd)

- Parent company decision making process are least likely to be seen as an important issue in investment decisions, with fewer than four in ten (35%) who consider it important.



Less than 3% not labeled.

15. Indicate how important each of the following are when making investment decisions to expand. How about...?

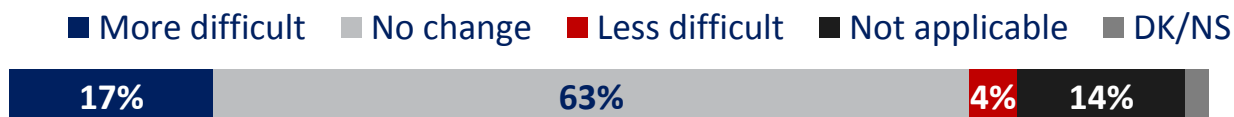
Base: All Respondents (n=196)



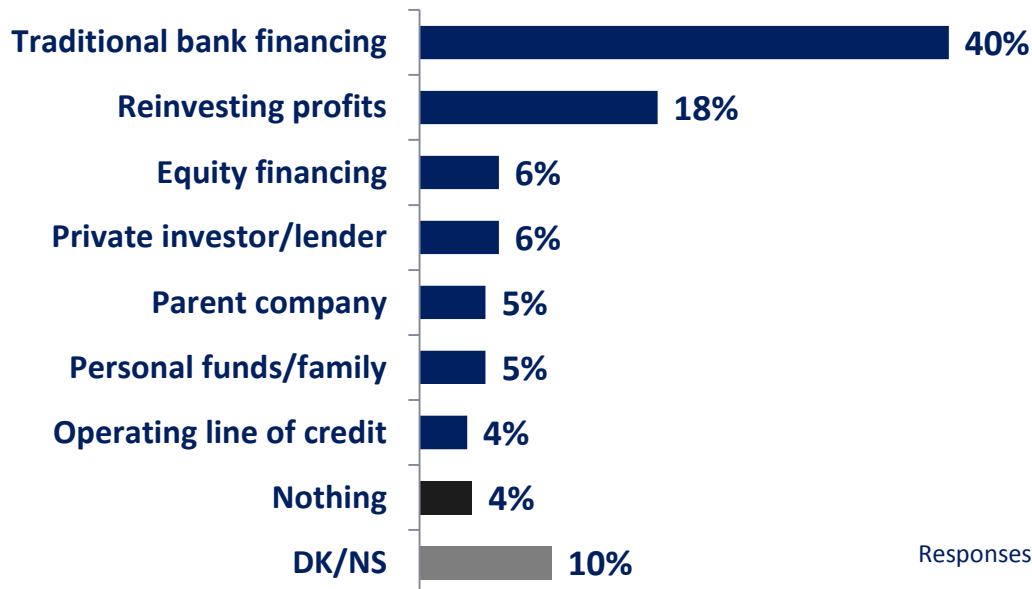
Finance

- About two-thirds (63%) of firms indicate that, over the past 12 months, there has been no change for their company when looking for adequate financing.
- Traditional bank financing is the most commonly mentioned main source of financing for expansion, capital investments, or product and market development, with four in ten mentioning this source.

Experience of company when looking for adequate financing over the past 12 months



Company's main source of financing for expansion, capital investments, or product and market development



Responses of one percent not presented on graph.

16. Over the past 12 months, has your company found it more difficult, less difficult or has found no change when looking for adequate financing?

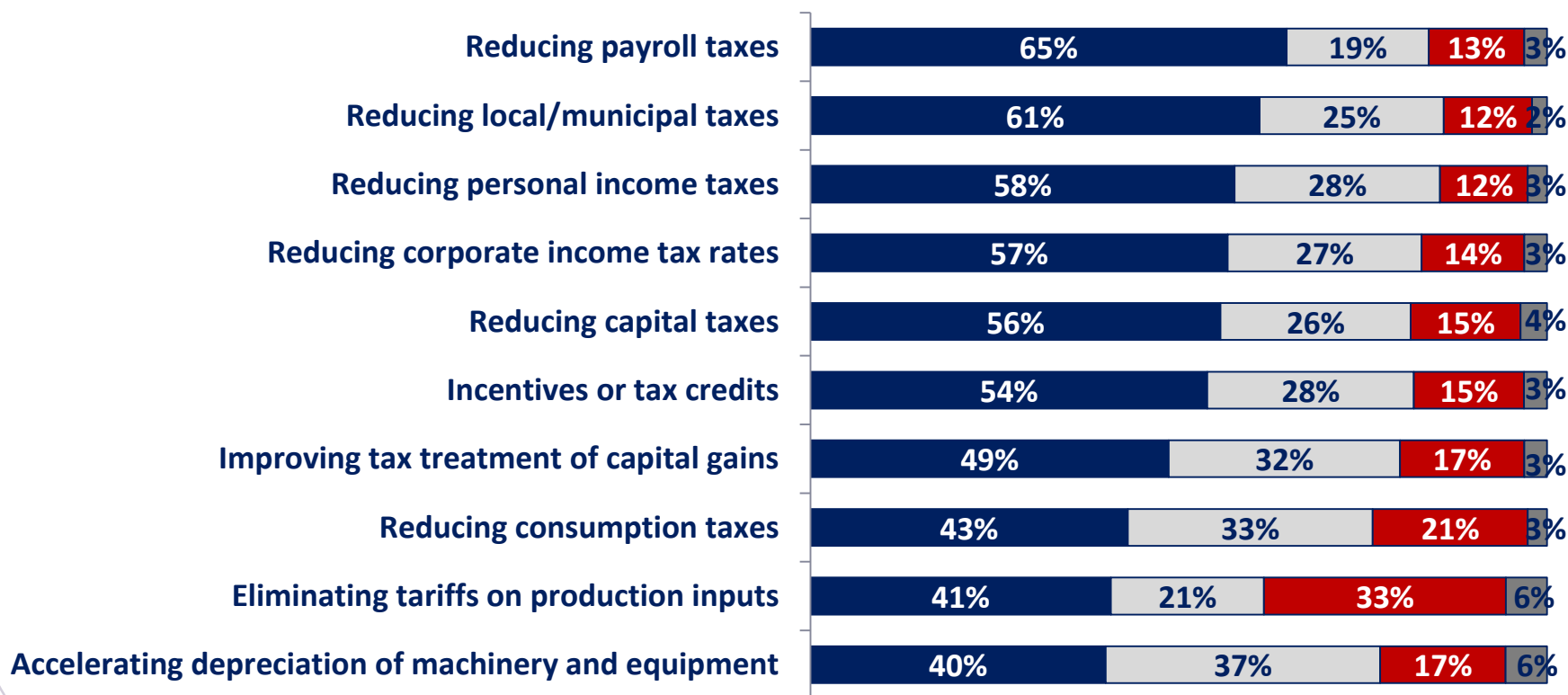
17. What is your company's main source of financing for expansion, capital investments, or product and market development?

Base: All Respondents (n=196)

Importance of Various Government Actions

- Majorities of six in ten or more indicate that their company places a high level of importance on government actions, such as reducing payroll taxes (65%) and reducing local/municipal taxes (61%).
- Smaller majorities also place a high level of importance on reducing personal income taxes (58%), reducing corporate income tax rates (57%), reducing capital taxes (56%), and incentives or tax credits (54%).

■ High □ Moderate ■ Low ■ DK/NS



18. Would you say that your company places a low, moderate, or high level of importance on the following government actions? How about...?

Base: All Respondents (n=196)



Employment

Projected Employment Needs

- Most firms (54%) indicate that the projected employment needs for their company’s facility are expected to remain stable.
- However, respondents who expect a change are far more likely to expect an increase (39%) rather than a decrease (5%).

Projected Employment Needs



Q18a. Are the projected employment needs for your company’s facility expected to increase, decrease or remain stable over the next 2 years?

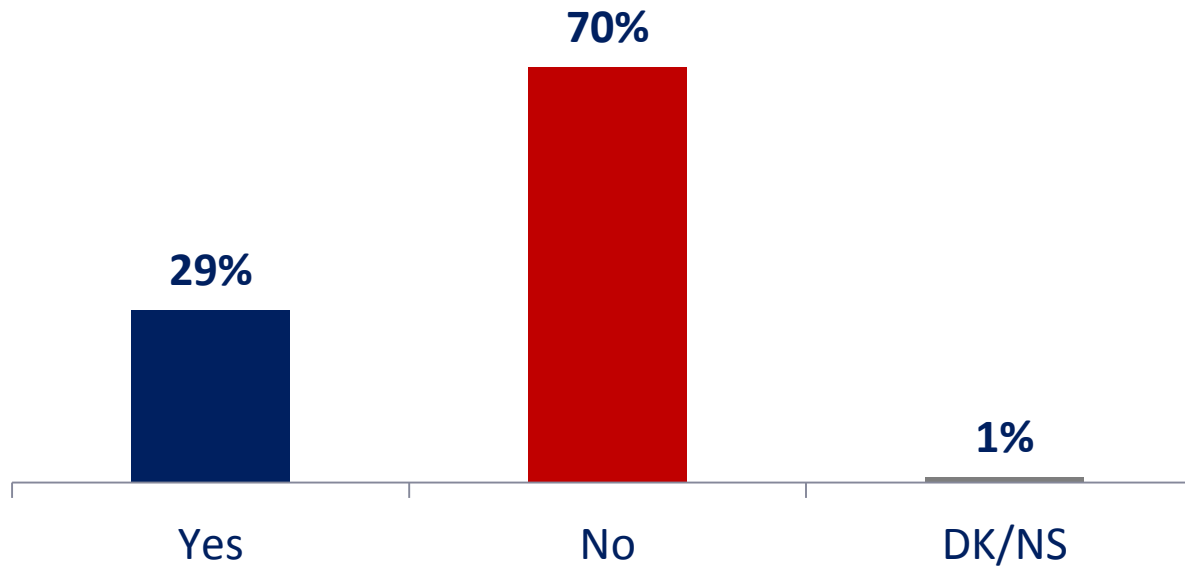
Base: All Respondents (n=196)



Human Resources

Does the Company Face Immediate Labour or Skills Shortages?

- Three in ten (29%) firms indicate that their company faces immediate labour or skills shortages.

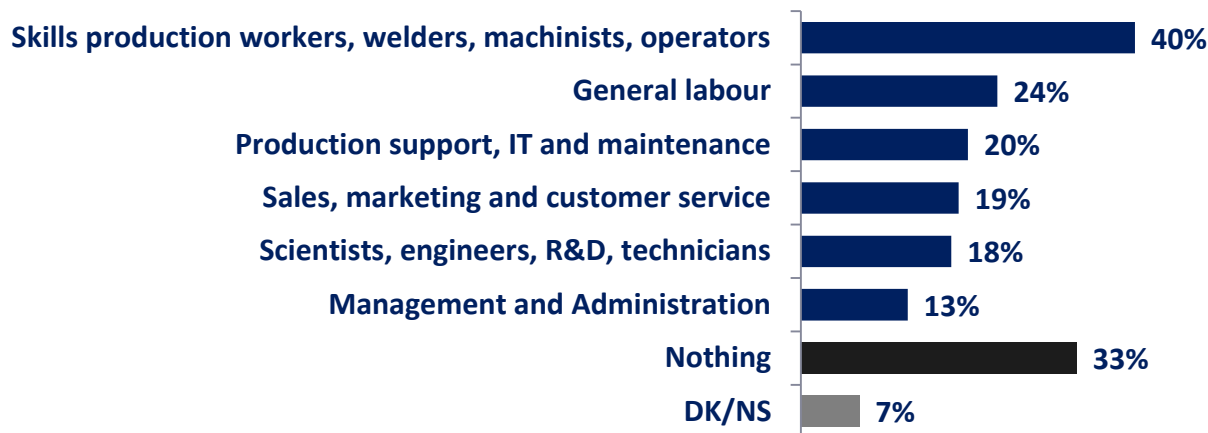


19. Does your company face immediate labour or skills shortages?
Base: All Respondents (n=196)

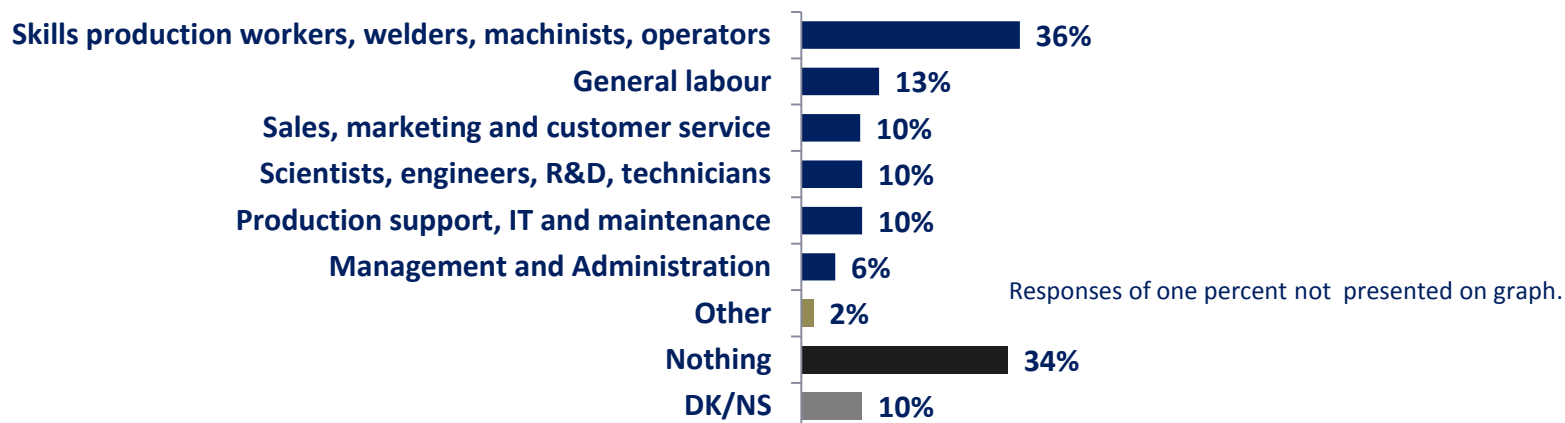
Occupations Facing a Shortage of Skilled Workers

- Skills production workers, welders, machinists or operators are most likely to be seen as the occupations that face a shortage of skilled workers currently and over the next five years.

Current Shortage



Next Five Years



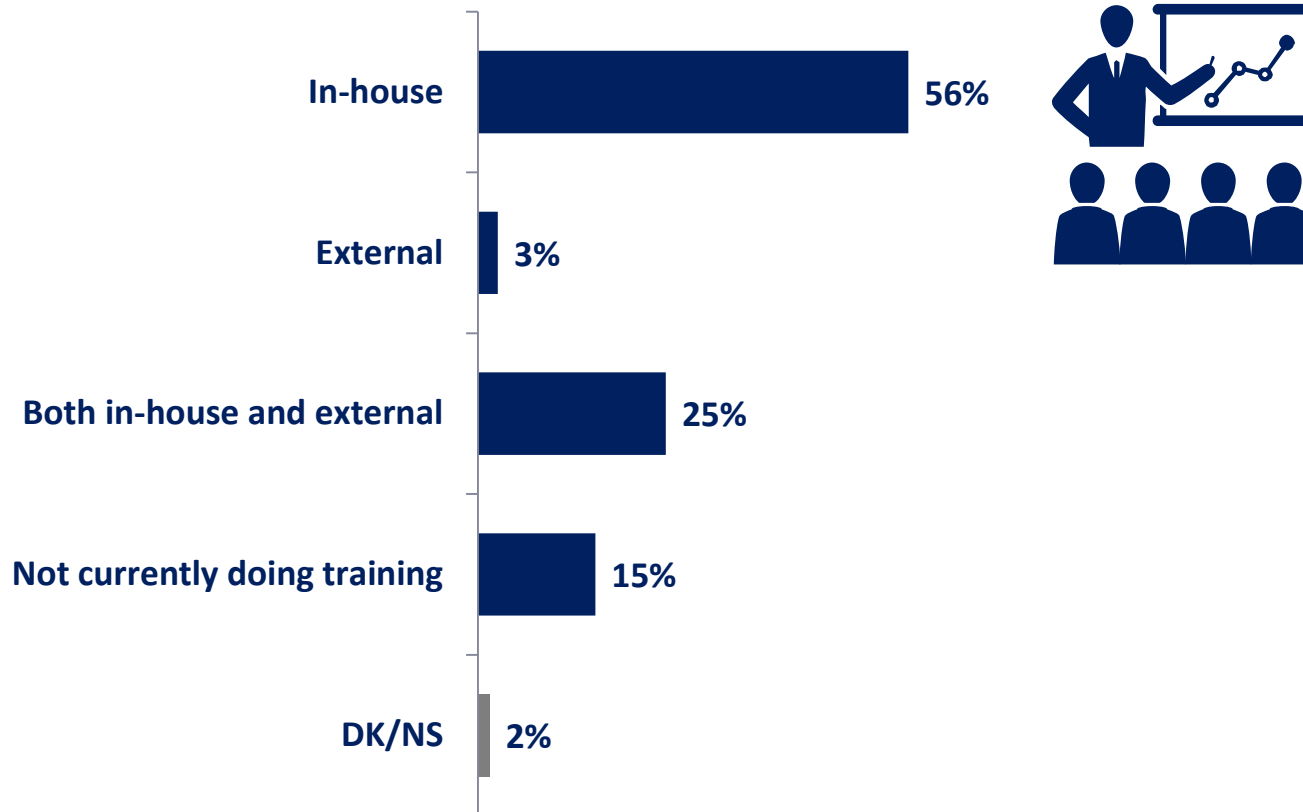
20. In which of the following occupations is there currently a shortage of skilled workers? (Multiple responses accepted)

21. Looking forward over the next five years, which occupations do you anticipate facing a shortage of skilled workers? (Multiple responses accepted)

Base: All Respondents (n=196)

Company Do Training

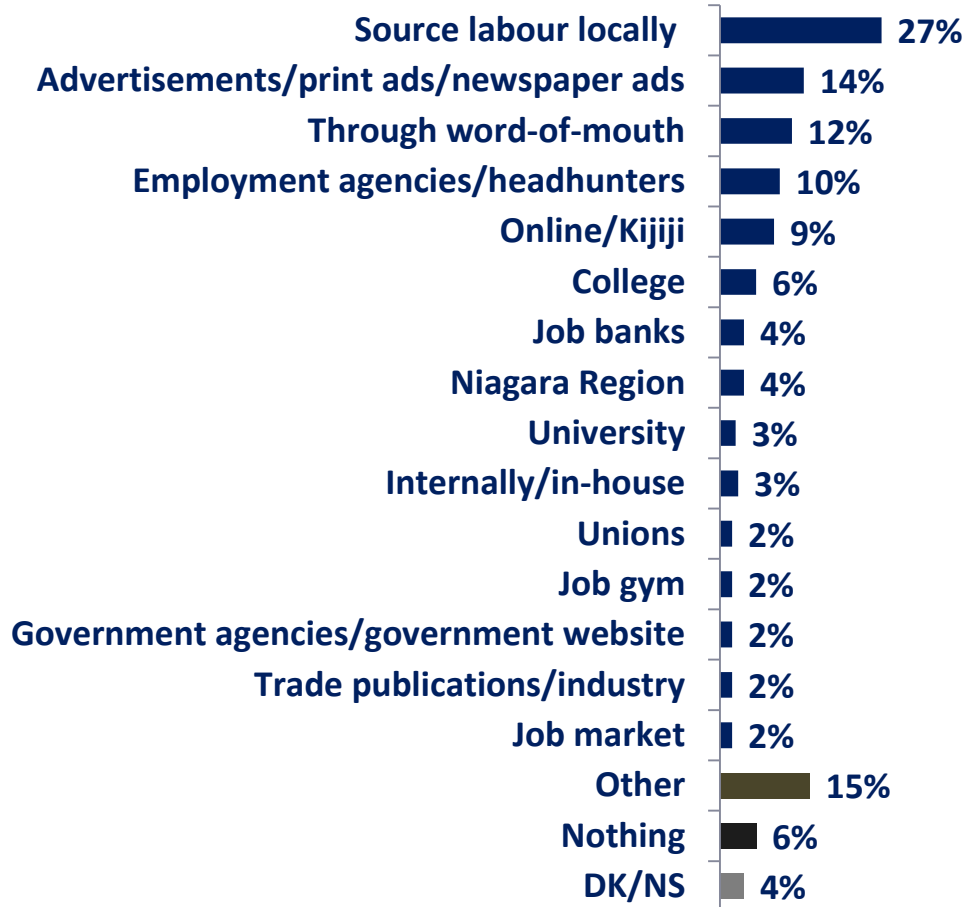
- Most firms (56%) conduct training in-house.
- Another quarter (25%) do both in-house and external training.



22. Does your company do training in house or use external trainers or is not currently doing training? (Multiple responses accepted)
Base: All Respondents (n=196)

Current Sources of Labour

- Firms use a variety of sources for labour supply, with the primary being through advertisements, word-of-mouth, employment agencies or online/Kijiji.



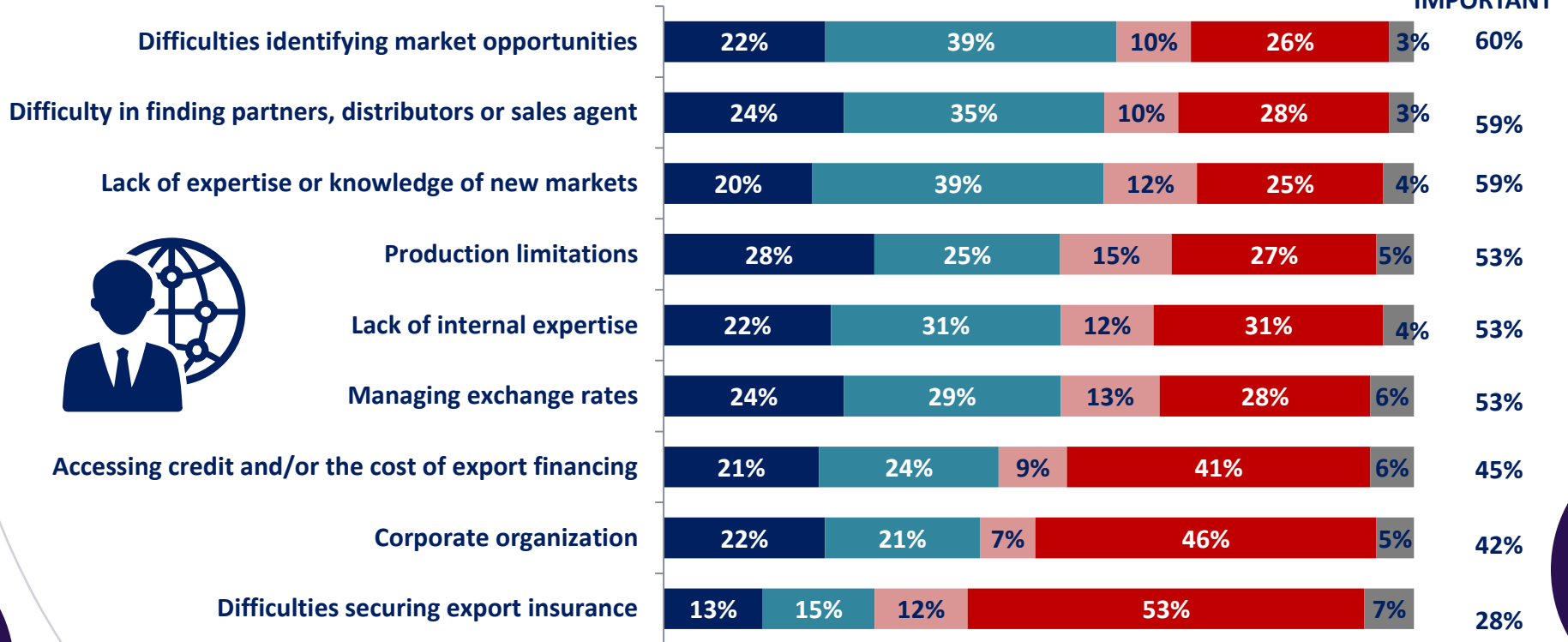
23. Where do you currently source labour from? (Multiple responses accepted)
 Base: All Respondents (n=196)

Attitudes and Options Towards Policies

Most Important Barriers in Expanding Business in Global Markets

- Majorities of six in ten focus on difficulties identifying market opportunities, (60%), difficulty finding partners, distributors or sales agents (59%) or lack of expertise or knowledge of new markets (59%) as key barriers to expanding their business in global markets.
- Smaller majorities also point to production limitations (53%), lack of internal expertise (53%) or managing exchange rates (53%) as important barriers.

■ **Very important**
 ■ **Somewhat important**
 ■ **Only a little important**
 ■ **Not at all important**
 ■ **DK/NS**



24. Would you say that the following are very important, somewhat important, only a little important, or not at all important barriers to expanding your business in global markets?

Base: Those respondents who answered the question (n=121)

Most Significant External Challenges Facing Company in Expanding Sales

- The most significant external challenges faced by their company in expanding sales when doing business in foreign markets are competition from third countries (12%) and the foreign exchange rate (8%).



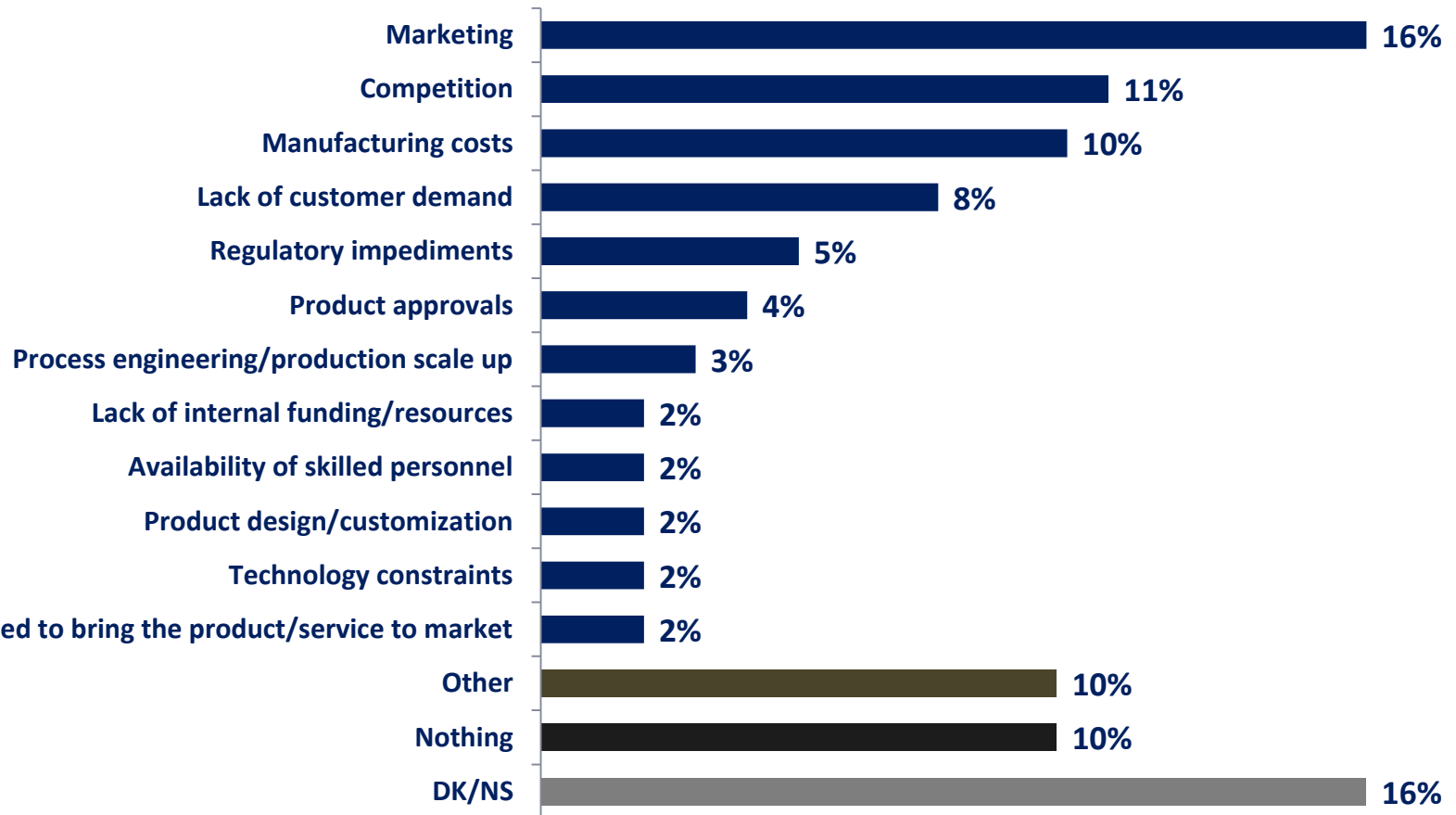
25. When doing business in foreign markets what are the most significant external challenges faced by your company in expanding sales? (Multiple responses accepted)

Base: All Answering (n=121)



Most Significant Challenges Facing Company in Bringing New Products or Services to Market

- The most significant challenges facing their company in bringing new products or services to market are marketing (16%), competition (11%) and manufacturing costs (10%).



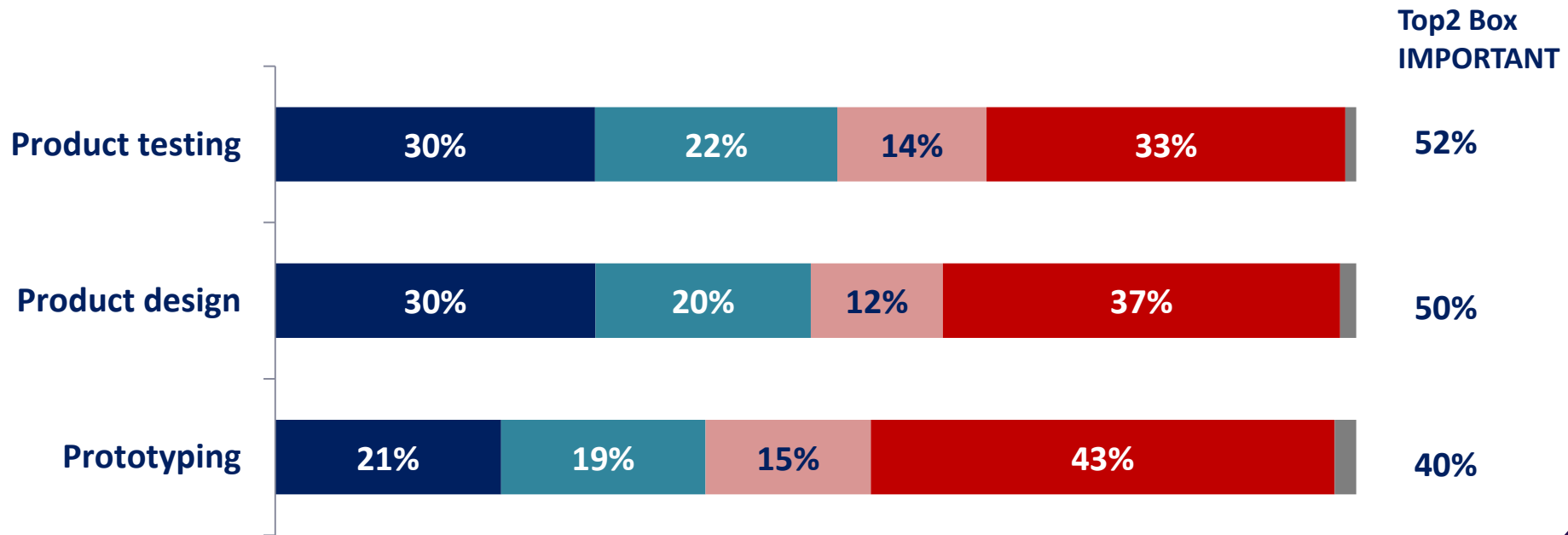
27. What are the most significant challenges your company faces when bringing new products or services to market? (Up to three responses accepted)

Base: All Respondents (n=196)

Importance of Access to Specific Product Related Services for Their Company

- Five in ten firms indicate that product testing (52%) and product design (50%) are important product related services for their company.
- A smaller proportion (40%) see access to prototyping as important.

■ Very important
 ■ Somewhat important
 ■ Only a little important
 ■ Not at all important
 ■ (DK/NS)



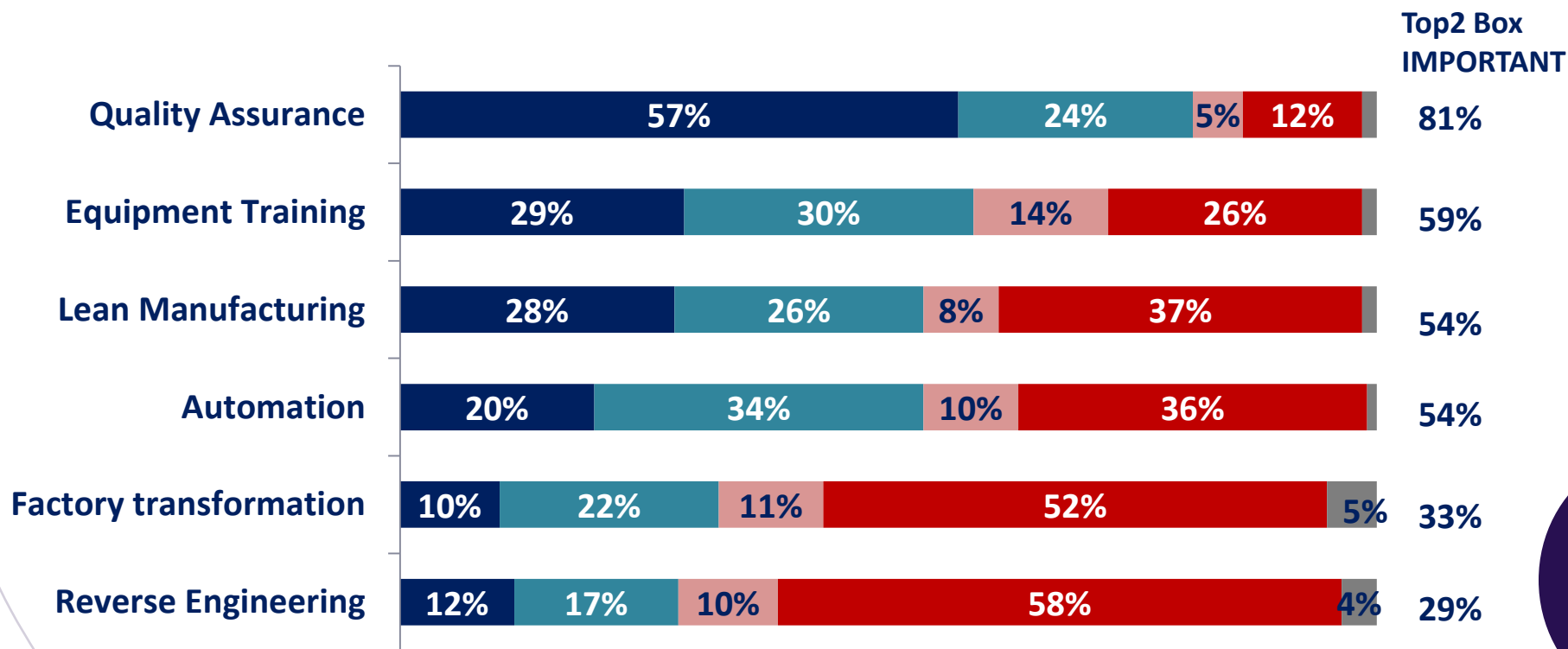
29. How important is it for your company to have access to the following product related services? Would you say that it is very important, somewhat important, only a little important, or not at all important? How about... ?

Base: All Respondents (n=196)

Importance of Access to Specific Process Related Services for Their Company

- A vast majority (81%) of respondents indicate that quality assurance is an important process related service for their company.
- Smaller majorities also view equipment training (59%), lean manufacturing (54%) and automation (54%) as important.

■ Very important
 ■ Somewhat important
 ■ Only a little important
 ■ Not at all important
 ■ DK/NS



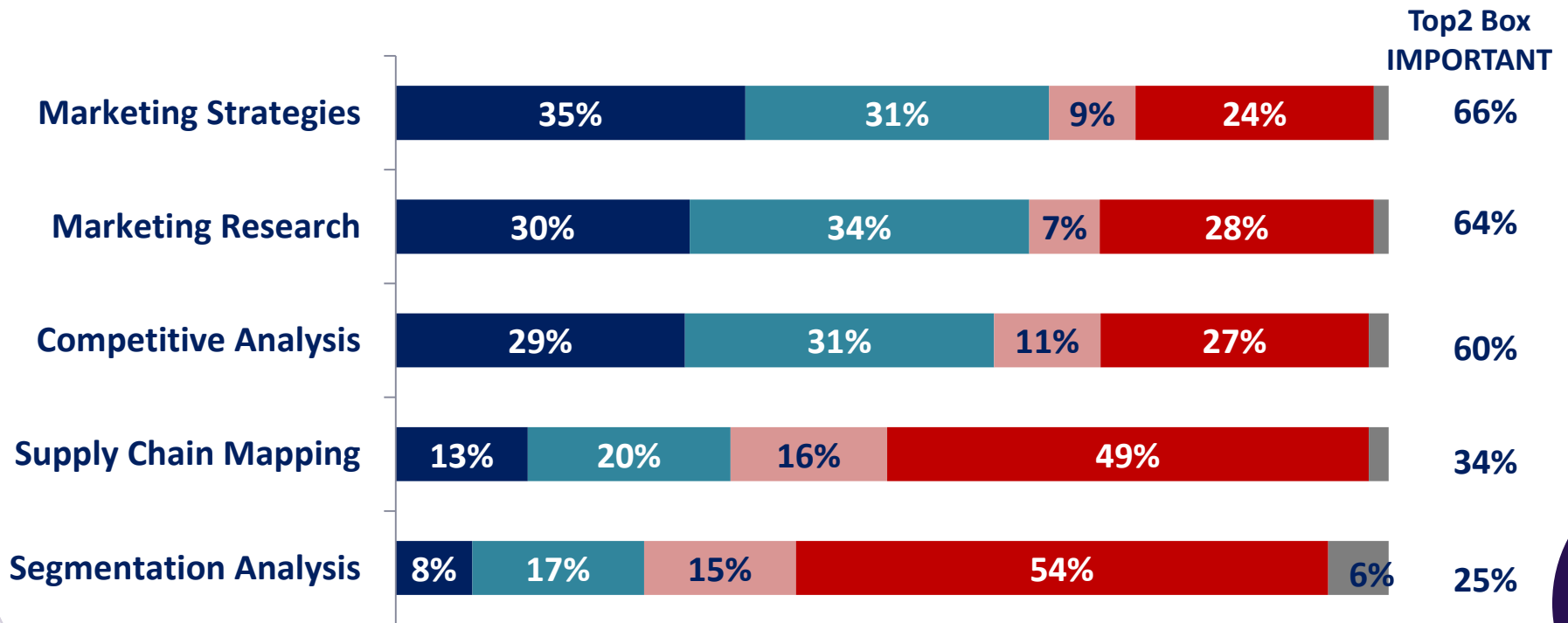
30. On the same scale, how important is it for your company to have access to the following process related services? How about... ?

Base: All Respondents (n=196)

Importance of Access to Specific Business Services for Their Company

- Majorities of firms indicate that marketing strategies (66%), marketing research (64%) and competitive analysis (60%) are important business services for their company.

■ Very important
 ■ Somewhat important
 ■ Only a little important
 ■ Not at all important
 ■ DK/NS



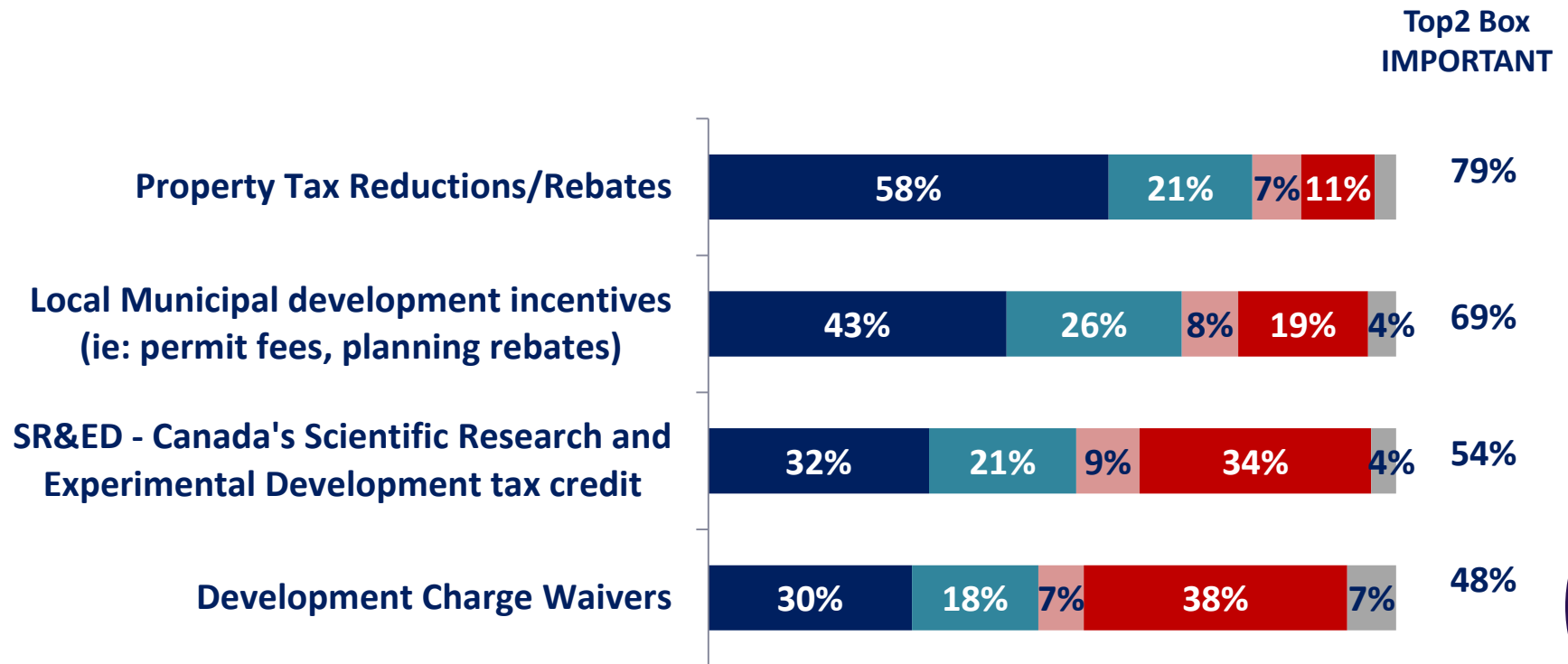
31. On the same scale, how important is it for your company to have access to the following business services? How about...?
 Base: All Respondents (n=196)

Incentives, Rebates, Grants and Tax Credits

Importance of Incentive Programs To Expansion and Location Destinations

- A vast majority (79%) of firms indicate that property tax reductions/rebates are important incentive programs to the expansion and location destinations for their company.
- A large majority (69%) also view local municipal development incentives as important, and a slight majority (54%) say the same about Canada’s Scientific Research and Experimental Development tax credit.

■ Very important
 ■ Somewhat important
 ■ Only a little important
 ■ Not at all important
 ■ DK/NS



32. Would you say that the following incentive programs are very important, somewhat important, only a little important, or not at all important to your expansion and location destinations for your company? How about... ?

Base: All Respondents (n=196)

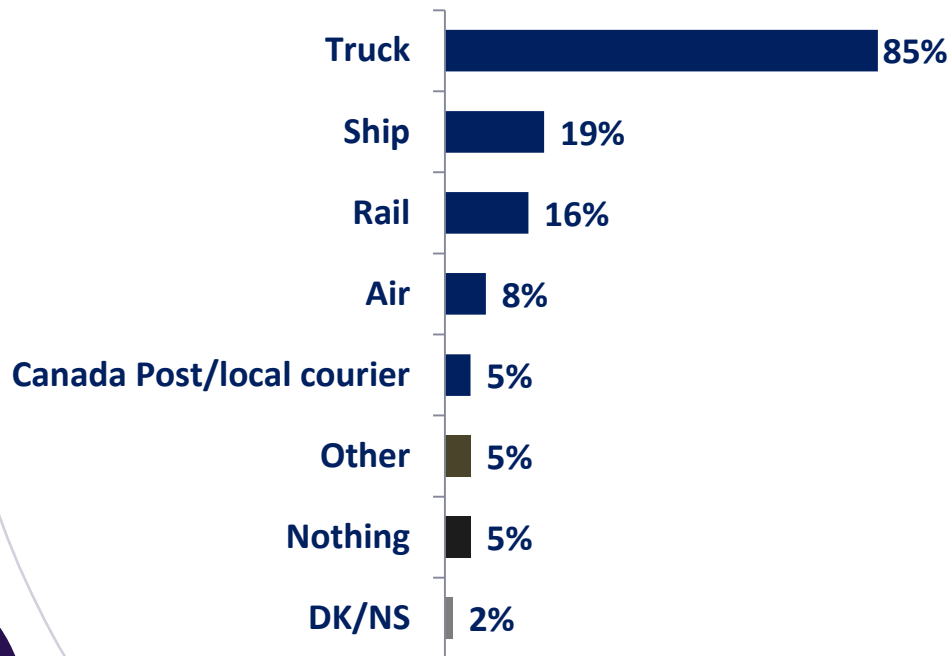


Transportation

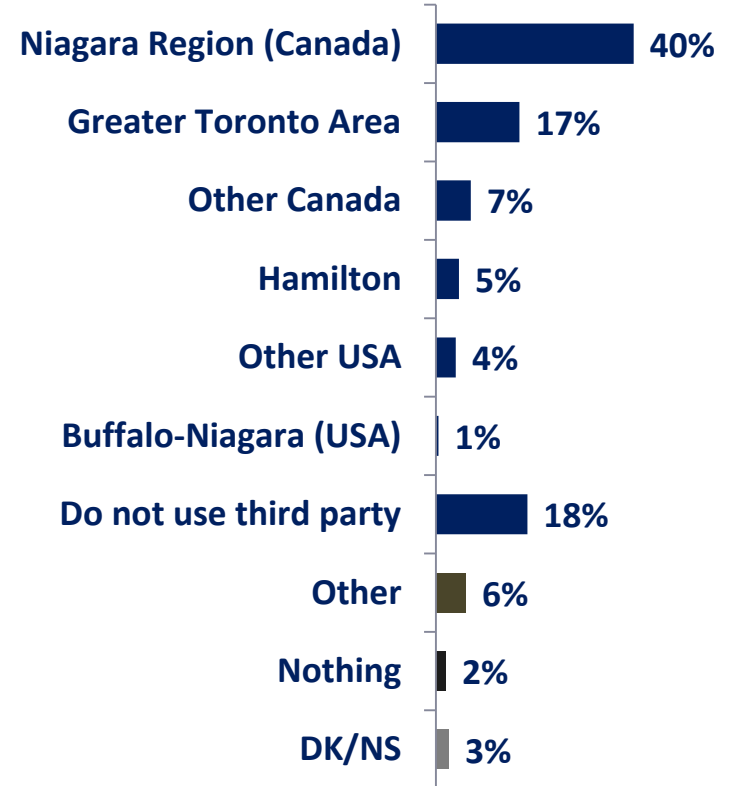
Transportation

- Trucks are, by far, the most commonly used means of shipping goods, with a vast majority (85%) indicating they use this form of transportation.
- For those using third party shipping, the most common location of this shipping is Niagara Region (Canada), with four in ten (40%) mentioning this location. About two in ten (17%) say their third party shipping is located in the Greater Toronto Area.

How do you ship your goods?



Location of third party shipping



33. How do you ship your goods? (Multiple responses accepted)
 34. If you are using third party shipping where are they located?
 Base: All Respondents (n=196)

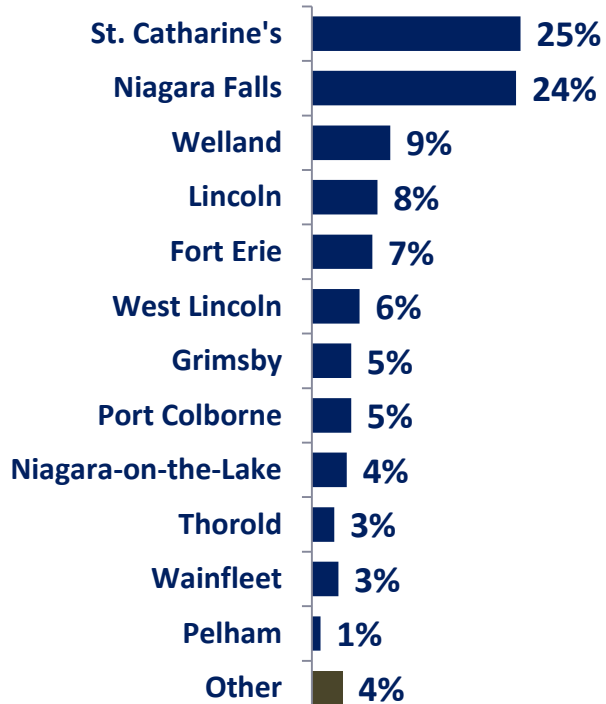


Profile

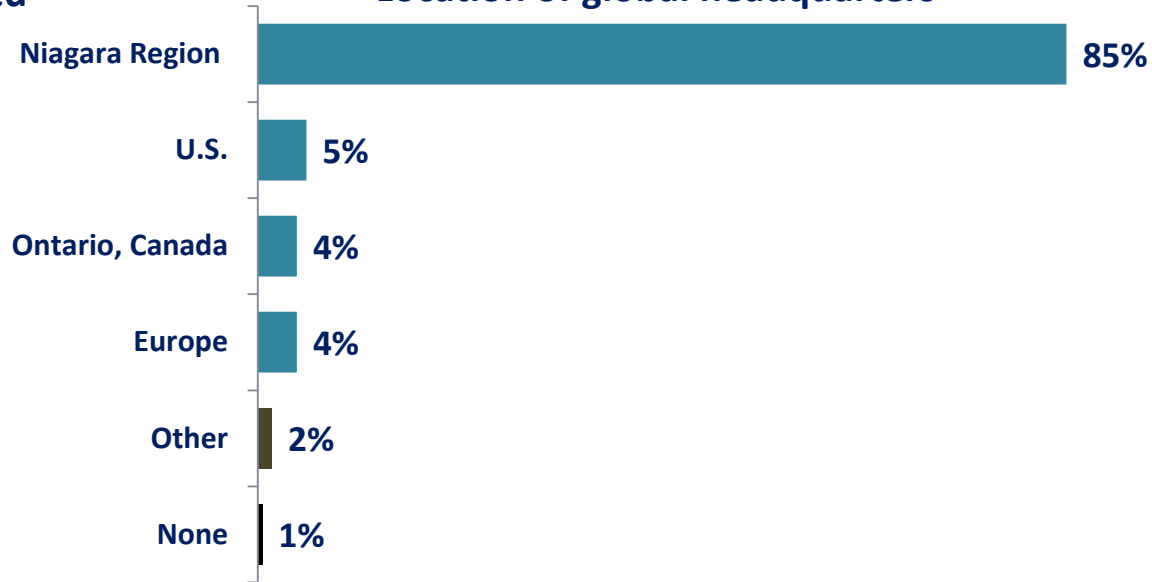
Location of Company

- Nearly all firms have only one location, with one-quarter each located in St. Catharine's (25%) or Niagara Falls (24%).
- The vast majority (85%) of respondents say their global headquarters is located in Niagara Region.

Municipality where operation is located



Location of global headquarters



One location only 99%

Multiple locations 2%

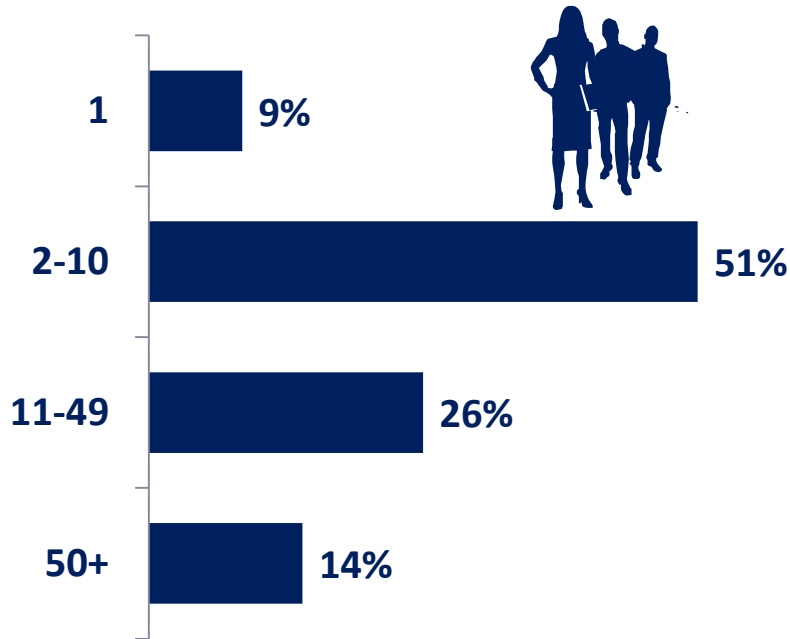
Q1. In which municipality is your operation located? Base: All Respondents (n=196) (Multiple responses accepted)

Q2. Where is the global headquarters of your company located? Base: All Respondents (n=196)

Size of Workforce

- Half (51%) of firms have a workforce of between two and 10 employees. The median size of their workforce is seven employees.
- About half (46%) say the size of their company's total workforce is between two and 10 employees. The median size of their total workforce is nine employees.

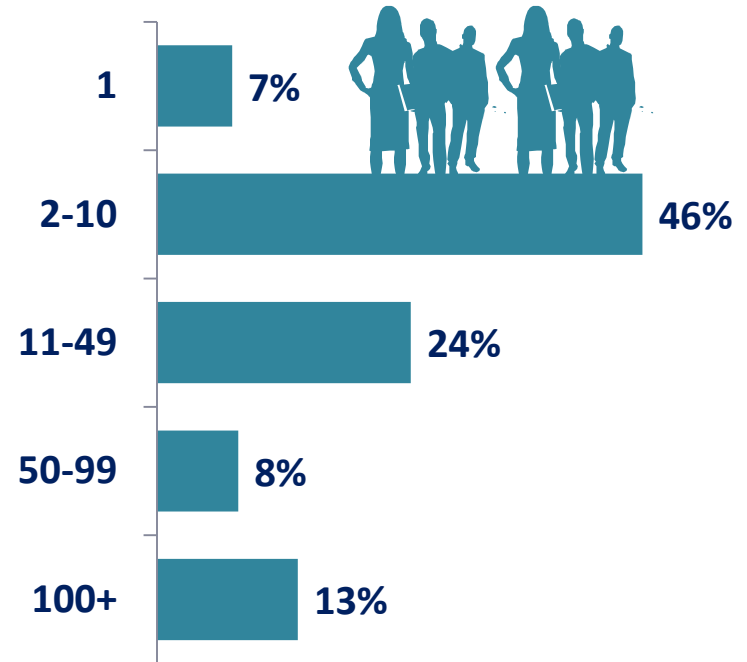
Size of company's workforce in Niagara Region



Niagara Region

Median: 7

Size of company's total workforce



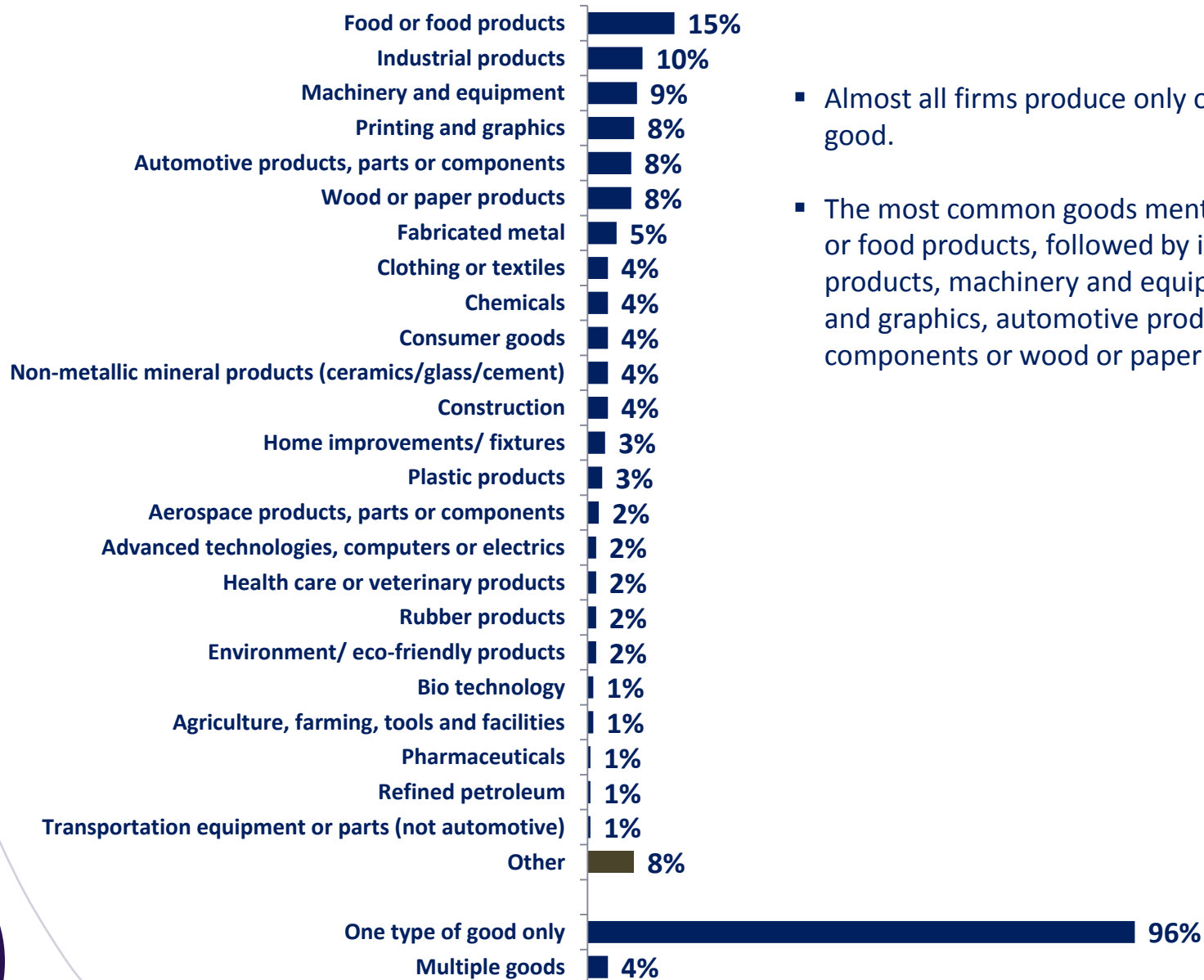
Company's Total Workforce

Median: 9

Q3. What is the size of your company's workforce in Niagara Region? Base: All Respondents (n=196)

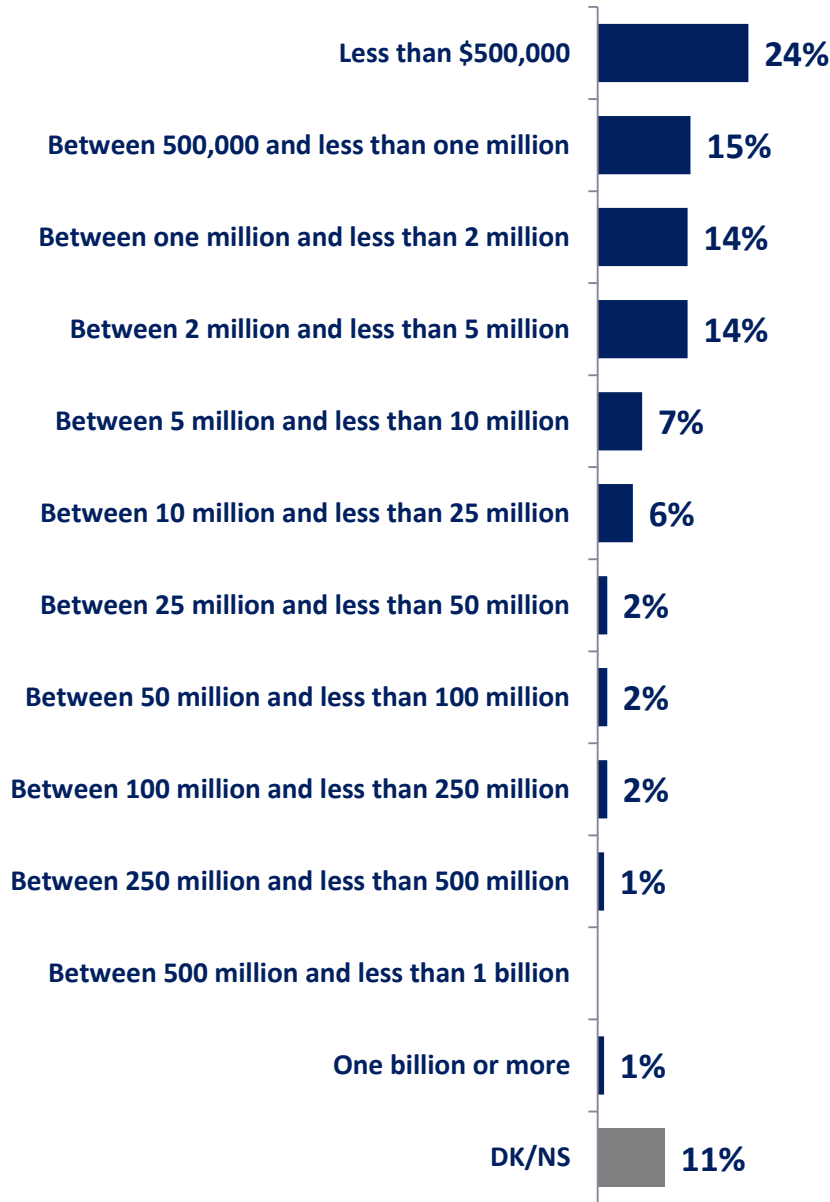
Q4. What is the size of your company's total workforce? Base: All Respondents (n=196)

Types of Goods Produced, Made, or Manufactured



- Almost all firms produce only one type of good.
- The most common goods mentioned are food or food products, followed by industrial products, machinery and equipment, printing and graphics, automotive products, parts or components or wood or paper products.

Annual Sales of Company in 2012



- Four in ten (39%) firms report annual sales of below \$1 million, including one-quarter (24%) who report annual sales of below \$500,000.

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