



BRITISH COLUMBIA INDUSTRIAL DEVELOPMENT BULLETIN

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International Outlook

Market crashes do not have to instigate recessions but they do impact upon business investment and consumer expenditure. An election year coupled with the U.S. fear of recession will put pressure on the Federal Reserve Board to ease U.S. monetary policy further. Lower interest rates may result, much to the consternation of foreign investors. The U.S. dollar will continue to take a beating on foreign exchange markets early in the year but the world's central banks will moderate the impact.

OPEC is entering 1988 rife with internal divisions and mounting strain on its price and production strategy. Oil prices should remain in the mid to high teens if OPEC holds; if not, prices could plummet to the \$10 range.

OECD inflation will be in the 3.5% to 4.0% range in 1988 while employment levels will stabilize.

National Outlook

The Canadian economy should expand at an annualized 2.5% to 2.75% rate during the first half of 1988. This is down slightly from earlier estimates due to reduced U.S. demand for our exports and the effects on personal income as tax reform kicks in. Unemployment rates may accelerate slightly in the first half of 1988 reaching the 8.75%

range. The decrease in economic activity should result in continued moderate levels of inflation; averaging 4.0% in 1988. A decline in domestic activity should reduce import demand and coupled with the U.S. declining demand for our exports could result in a 5% to 7% overall reduction in merchandise trade volume.

Provincial Outlook

The 3.2% to 3.5% growth of the B.C. economy in 1987 was fueled by a strong year in the forestry, mining and housing sectors and a surprisingly buoyant trade and services sector. Last year B.C. enjoyed its best year since 1981. The outlook is for somewhat slower growth in 1988, at 2.5% to 3.0%.

Newsprint price hikes continue to be absorbed and U.S. demand for newsprint will show strong growth in 1988. The industry is operating at full capacity. The strike in Peru continues to keep copper prices strong and zinc prices will be stable during the first half of 1988. Coal price negotiations continue and a settlement should be reached during the first quarter. Lower interest rates will continue to drive housing starts despite the crash; non-residential construction will also respond to lower rates.

Eight major labour contracts expire in 1988 representing over 100,000 employees. Unemployment will continue to be high despite strong employment growth, rates are expected to be 2% to 3% above the national average.

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This edition of the Bulletin will examine the challenges and opportunities facing three vibrant and still-emerging sectors in the British Columbian economy, namely electronics, software and marine tourism. These issues highlight marketing, finance and management as affecting growth in these sectors. These points in question, of course, have much broader application, touching in fact upon each major industry of the province. Also included is an article examining the impact of "Black Monday" on the capital investment intentions of key British Columbia industries. Information on the availability of previously unreleased financial statement data for small businesses in British Columbia is also provided.

Electronics

The emerging electronics sector in B.C. makes a vital contribution to the provincial economy. The sector, defined as those firms actually manufacturing electronics products, provides some 0.5% of our jobs and represents around 1% of our GDP. However, the greater contribution of the industry is represented in its role as a well-spring for product and process improvements that affect the competitiveness of many other industries in the province.

Electronics manufacturing in B.C. is characterized by small, highly innovative companies which have succeeded in identifying a product and market niche. The companies often find themselves in product lines connected in some way to the dominant resource industries of the province. This "dominant industry focus" has meant that areas of expertise have begun to show up related to mining and oceanography as well as forestry. Another strong linkage is to the telecommunications industry where B.C. firms enjoy a world wide reputation for excellence.

With the highly specialized nature of the business, companies have very often had their origins in universities, or were spun-off from other larger technology-based firms or were begun by bold entrepreneurs. As a consequence, the industry has concentrated in the lower mainland and around the university communities.

Staying on the leading technological edge is the key challenge for success. Much of the sector has met this challenge by combining existing technologies in innovative ways. With the importance of technology, entrepreneurs have naturally concentrated

their efforts on building the physical and technical infrastructure required of a new industry. Less attention has been available for other aspects of business growth - like marketing, financing and building depth of management.

This has been a problem faced by small firms attempting to hurdle the threshold to a moderate sized company with perhaps 100 employees. Financing is a constraint, but often so is management philosophy: successful management values market development just as highly as technological excellence. A good example of this philosophy in action is MDI Mobile Data International Inc. of Richmond, B.C., which won the Canada Award for Excellence in marketing in 1985. For many firms this orientation takes time. Also, the network of sector support needs to improve where interdependence is seen as an asset allowing the greatest fertilization of ideas.

The industry has recognized where its opportunities lie. The foremost is in serving the needs of traditional industries for new process improvements which can drive down costs and improve yields or product quality through incorporation of electronics. In some higher growth sectors too, principally telecommunications, the market opportunity for new products will continue to sustain high investment levels.

With these as the focal points for the electronics sector, it is expected to continue growing as a world scale supplier of specialized industrial products and help form the foundation of the next wave of economic growth for the province.

Software

Software firms are defined as those firms that derive their principal source of revenue from the development and sale of computer software directed towards micro, mini and mainframe installations. As the lower mainland struggles to evolve into Silicon Valley North this sector will contribute even more significantly to the economy of B.C. In 1984, the latest year for which data are available, the software industry contributed \$39.4 million to the economy.

The B.C. software industry consists mainly of sole proprietorships and small firms with one or two product offerings. These firms tend to specialize in business application software and to concentrate on local markets, relying on after-market service to differentiate their product. Inroads made outside of a local market have largely been the result of the utilization of a major U.S. software distributor. In contrast to the U.S. industry, no one Canadian or B.C. firm dominates any market segment as do Microsoft, Lotus or Ashton-Tate.

The mid-eighties saw a slowdown in the tremendous industry growth as venture capital dried up, overhead and falling prices put a squeeze on the bottom line and the demand for custom software declined. Forecasts are now calling for real growth in the neighbourhood of 7% to 9% annually. This growth is more modest and based upon a firmer foundation of expertise and thus should be sustainable in the long-run avoiding the boom and bust cycle quite common in "intelligence" industries.

The late eighties and early nineties should see the development of software that is vertical in nature - broad applications with specific target markets; for example, financial statement software aimed at accountants. This is quite different from the current focus of the industry on specific application software directed towards a large number of users. The change in focus will require B.C. firms to conduct rigorous product-market matching; for

example, research on potential niche markets. It may also require joint marketing arrangements to develop opportunities outside the lower mainland. The U.S. market has not been penetrated by B.C. firms to the extent possible and the industry recognizes that emphasis must be given to developing this lucrative market.

The emergence of "desktop publishing" and the re-emergence of decentralized departmental computing in many industries presents software firms with a golden opportunity to capture a good share of the multi-user, multi-function market niche.

Marketing, finance and, of course, management are the keys to success in the software industry. The VSE has been a steady source of financing for B.C. firms. And as the healthy rate of return in the industry continues to attract budding entrepreneurs and computer scientists the demand for competent and visionary management will exceed the supply. Universities have a key role to play in this regard. The most critical element to business growth is marketing: specifically marketing research, market development and promotion. As current markets are fully exploited and new markets are developed B.C. will reinforce its claim to the title of Silicon Valley North.

Marine Tourism

This highly specialized sector of the tourism industry in B.C. is now recognized as a major and distinct entity providing perhaps \$350 million annually to the B.C. economy and as many as 5000 direct and indirect jobs. The impact is difficult to estimate because of the multitude of small firms, the seasonality of the industry and the fact that the sector is diverse and poorly organized.

The main sub-sectors include sport fishing, cruise ships, scuba diving, recreational boating and marine resorts. These sub-sectors are relatively undeveloped compared to our international competition. But this is changing as business responds

to the exciting growth in demand occurring world wide for the get-away type experience. And B.C. has among the finest in natural marine attractions found anywhere in the world. Shearwater Marine in Bella Bella, B.C. is just one example of a company successfully developing, on a joint-venture basis, markets in the sports fishing sector. The planned South Moresby National Park is further testimony to our rich mixture of cultural, natural and historic features.

While the natural attractions are world-scale, the waterfront development, outside the major urban centers, is not. This is one of the consequences of an industry which is seasonal and which relies on entrepreneurs lacking in the full range of management skills. Financing and marketing have also been weaknesses throughout the industry.

Some of the issues that need resolution: resource conflicts which, while they are most often noted in the sport fishing sector, can be found everywhere; tightening regulation threatened for charter boat operators; and, increasing costs, from insurance to moorage to staff. With B.C. already considered as a high price market, the challenge for the industry is to ensure that quality of service corresponds.

The industry is privileged with its environment and faces ever increasing market demand. Opportunities are not difficult to identify. They range from developing related supply industries, mostly in equipment, to shore based facilities, to new marine attractions. Cooperation across the sub-sectors must improve and product-market matching needs to become more sophisticated in tune with the expectations of the international market place.

Small Business

Just a reminder that the small business profiles on B.C. sectors will be available in February. For copies contact any FBDB branch, the B.C. Enterprise Centres or Statistics Canada, Vancouver.

Did You Know?

- B.C. electronic manufacturing value in 1987: \$700 million
- Percentage of which was exported: 50+
- Percentage annual growth rate since 1983: 20
- Per 100,000 population, the number of scientists and researchers in Canada: 90
- In the U.S.: 280
- Percentage of Canadian patents held by non-Canadians: 93
- Percentage increase growth for professional job vacancies in B.C. in 1987: 83
- Ranking of B.C. in comparison to other provinces: 2
- Number of aquaculture companies operating in B.C. in 1980: 2
- In 1987: 37
- Tonnage sales of farm-raised fish in B.C. in 1980: 100
- In 1987: 1,700
- Start-up cost for the Ron Zalko health and fitness facility: \$3,000
- Value of the business in 1987 (his estimate): \$3 million
- Annual revenues from B.C. exports to California: \$4 billion
- Amount of this derived from forest product sales: \$3 billion
- Projected R&D investment by MacMillan Bloedel in the Parallam Project, which ranks as the largest single R&D project ever undertaken by the Canadian forest industry: \$137 million
- Percentage increase of overseas visits to B.C. between 1973 and 1986: 500
- To Ontario: 300

THE IMPACT OF THE STOCK MARKET CRASH ON CAPITAL INVESTMENT PLANS IN BRITISH COLUMBIA

Since the October 19th market crash, or market adjustment as it is now more readily referred to, many companies in B.C. have not adjusted their capital spending or investment plans. They are moving ahead with their plans, albeit cautiously.

Immediately after the market adjustment, the Bank of Canada increased the money supply and lowered interest rates to provide liquidity to the market and to regain consumer and business confidence.

The Bank actions have had a positive effect on business in B.C. Several forecasting groups have surveyed the business community in B.C. and across Canada since the adjustment and have found that business confidence is holding. Informetrica Ltd. and the Conference Board of Canada have indicated that companies are still moving ahead with investment plans and that the adjustment is not going to have a major negative influence on the economic outlook. A national survey conducted by Decima Research also shows that the majority of 1,200 industry respondents do not believe the adjustment will negatively affect the economy. Seventy one percent of respondents indicated they had not changed their spending plans, while only 26 percent said they were reconsidering them but had not actually changed them. This Department's Capital Investment Intentions Survey shows that a selected group of large companies in B.C. intend to increase capital spending levels in B.C. in 1988 by 6.3 percent over 1987 levels regardless of the stock market adjustment.

Indeed, since the market adjustment, a number of company investment plans have been announced. The continuing trend is toward plant modernization or equipment upgrading rather than the construction of new facilities. Crown Forest Industries will spend \$14.5 million on modernizing its Armstrong plywood and lumber operation. The company is proceeding with these plans knowing that it must invest to remain competitive despite the uncertainty in the financial markets. Canfor Corporation

is planning to spend about \$350 million to modernize its Port Melon pulp and paper mill in Howe Sound. One of the few exceptions to the theme of modernization is Canfor's plan to build a new newsprint mill, at the same site. Richmond Plywood is putting in a new veneer line at a cost of \$3.5 million. And virtually all pulp and newsprint operations are in the process of modernizing in some way. This is occurring to take advantage of record high revenues before the traditional cyclical downturn begins.

In the mining sector, Cominco is considering developing its Snip gold property in Northwestern B.C. City Resources Canada Ltd. is planning to bring on stream its gold mine on Graham Island in the Queen Charlottes. And the Cheni gold mine in Northern B.C. near Toadoggonne could come into operation within the next two years. Cassiar Mining Corporation has announced plans to develop the McDame underground deposit in Northwestern B.C., if financing can be arranged.

Capital spending by major industries in B.C. has been sluggish since the 1982 recession. B.C. companies have experienced a slow recovery period. During this time they have been reducing their debt, shedding unprofitable operations and repairing balance sheets. Few resources have been available for aggressive capital programs. Nevertheless, if we were to head into a recession or a slow down, B.C. companies are better prepared than they ever were, being leaner and more efficient.

A word of caution: B.C. is dependent upon trade with the United States and other countries. As a consequence, significant changes in investment and trade patterns occurring outside the province will affect the B.C. economy. Since many forecasters are predicting a recession in 1988, (we incidentally are not among them), companies will be wary of the volatility in conditions and judging rather more frequently whether their capital spending program is still appropriate.

- **"Doing Business With Japan"** beginning January 27, 1988 for 5 weeks at the Board of Trade, Vancouver. Cost \$150.00 per seminar or \$495. for the series. Contact Jim O'Hara at (604) 641-1261.

- "New Enterprise Program"**, February 18-20, March 2,9,16,23,30, April 6, SFU Downtown Education Centre, Vancouver. Cost \$1,350. Contact Wanda Tingley at (604) 681-5035.

- "Economic Development Association of B.C. Spring Conference and AGM"**, February 21-23, 1988, Empress Hotel, Victoria. Cost \$129. Contact (604) 382-0332.

- **"New Exporters to Border States"**, February 23, 1988. Trip from Victoria to Seattle. Marketing trip is open to high tech firms in B.C. Cost is minimal. Contact Rex Heeney, DRIE (604)388-3144.

- "Spin-Off Technology: Recovering Internal R&D Investments Through External Marketing"**, February 23, 1988. SFU Downtown Education Centre, Vancouver. Cost \$175. Contact Wanda Tingley at (604) 681-5035.

- **"Connections 88"**, February 25 in Vancouver and February 26 in Victoria. A seminar on how Canadian electronic manufacturers can maximize benefits from using trade shows. Cost \$45. Contact Rick Stephenson, DRIE, (604) 661-2267.

- "Financing and Investing In Aquaculture"**, February 29, 1988, Four Seasons Hotel, Vancouver. Cost \$395. Contact (416) 927-0718.

- **"Accessing South-East Asian Markets"**, March 9, 1988, Richmond Inn, Richmond, B.C. Cost \$50. Contact Bill Burrough (604) 685-8131.

- **"Solo Food Show"**, March 10, 1988. Marketing Canadian manufactured food products in the Seattle, Washington area. Bellevue Red Lion Inn. Cost \$150. Contact Ron Farris, DRIE, (604) 661-2234.

- **"Defence Industry Seminar"**, March 14, in Victoria and March 15, in Vancouver. Opportunities available and how to sell to the U.S. military. No charge. Contact Rick Stephenson, DRIE, (604) 661-2267.

- **"Fundamentals of Marketing Research"**, March 15-17, 1988, Robson Square Media Centre. Sponsored by the Professional Marketing Research Society; earlybird price \$425. Contact Robert Grace (604) 661-2244.

- **"New Exporters to Border States"**, March 29-30, 1988. Trip from the Kootenays to Spokane, Washington. Marketing trip open to manufacturing companies in the Kootenays. Cost is minimal. Contact Rick Stephenson, DRIE, (604) 661-2267.

- "Western Business Outlook Conference"**, May 31, 1988, Vancouver, Contact Lise Derrah, Conference Board of Canada, (613) 526-3280.

* indicates participation by the Department of Regional Industrial Expansion

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