SERVING America from Canada

LOCATION COSTS ARE LOWER NORTH OF THE BORDER

U.S. companies scouting for a site from which to serve the North American market have a new reason to look north of the border: a recent study showing that it costs significantly less to start and operate a new plant in Canada than it does in the United States.

The advantages of a Canadian base are documented in a comparison of "location-sensitive" costs (i.e. those that vary with location) in the two countries. The study was prepared in March 1995 by KPMG Management Consulting, a division of Canada's largest professional services organization, for the Department of Foreign Affairs and International Trade.

In its study, KPMG compared the location-sensitive costs (e.g. labor, land, electricity) of setting up a production facility and operating it for 10 years.

Fifteen cities

The comparisons focused on a group of fast-growing industries in eight Canadian and seven U.S. cities. KPMG selected the U.S. cities to represent some of the fastest-growing business and manufacturing locations in the nation. Canadian cities were selected to provide good geographical representation across the country and also because they were logical alternatives to the U.S. sites.

From west to east the eight Canadian cities examined in the study were: Langley, British Columbia; Calgary, Alberta; Winnipeg, Manitoba; London, Ontario; Ottawa, Ontario; Laval, Quebec; Moncton, New Brunswick; and Halifax, Nova Scotia.

The U.S. cities were Sacramento, California; Bellingham, Washington; Austin, Texas; Minneapolis, Minnesota; Columbus, Ohio; Raleigh, North Carolina; and Manchester, New Hampshire.

The bottom line

The KPMG study finds that Canada has the cost advantage in industries as well as regions.

In the location comparisons, Canadian cities ranked first through sixth in every industry – and first through seventh overall. In the region-to-region comparisons, Canadian west coast locations had lower costs than their U.S. counterparts.

And, the analysts note, Canada maintains its advantage over a wide range of currency exchange rates.

Summing up the results, KPMG's Stuart MacKay, who directed the study, said "the common perception of Canada is that it is a high-cost place to do business. These results show exactly the opposite."

For your copy of the full report

This article is a condensation of KPMG's report titled *A Comparison of Business Costs in Canada and the United States*. For a copy of the complete report please contact the Canadian Investment Officer nearest you (see list on page 4).

Note: *All figures in this report are expressed in U.S. dollars unless otherwise specified.*

EXCHANGE RATES : *up north, a buck goes further*

KPMG's analysts note that in the year since they last compared Canada-U.S. costs the value of the U.S. dollar rose from $1.33 Canadian to $1.41 Canadian, increasing an already significant Canadian cost advantage.

Furthermore this part of the Canadian edge has wide margins. Even with a sharp shift in exchange rates in which the U.S. dollar became equivalent to $1.22, Canada would still have a cost advantage.

ENVIRONMENTAL INDUSTRIES (MANUFACTURING): *a clean cost edge*

PLANT SPECIFICATIONS

Site:	6 acres (fully serviced)
Building:	70,000 square feet
Product:	water treatment systems
Annual sales revenues:	$20 million
Labor requirements:	100 people

The study shows that it costs less to establish and operate this plant in all of the Canadian cities surveyed than in their regional U.S. counterparts. In initial facility investment costs (including site purchase and plant construction), Canadian cities captured the top six rankings. Average labor costs were lower in all Canadian locations.

PHARMACEUTICALS MANUFACTURING: *a lower-cost prescription*

PLANT SPECIFICATIONS

Site:	6 acres (fully serviced)
Building:	70,000 square feet
Product:	pharmaceutical preparations
Annual sales revenues:	$18 million
Labor requirements:	120 people

For start-up and operation of such a plant, all Canadian cities but one in the survey had lower costs than their U.S. counterparts.

In the case of initial facility investment (site and building), average costs in the Canadian cities were $3.5 million, compared with $4.1 million in the U.S.

Annual labor costs were approximately 26% lower in Canada.

AUTO PARTS MANUFACTURING: *better mileage in Canada*

PLANT SPECIFICATIONS

Site:	10 acres (fully serviced)
Building:	100,000 square feet
Product:	auto parts
Annual sales revenues:	$21 million
Labor requirements:	150 people

Compared region to region on both sides of the border, average annual costs for this plant were significantly lower in all eight Canadian cities than in their seven U.S. counterparts – $6.6 million compared with $7.5 million in the United States.

Labor costs were an impressive 22.3% lower in the Canadian cities.

The six lowest-cost locations in the survey were all in Canada. In continental context, Halifax had the lowest costs and Bellingham the highest.

TELECOMMUNICATIONS EQUIPMENT MANUFACTURING: *on-line advantage*

PLANT SPECIFICATIONS

Site:	6 acres (fully serviced)
Building:	60,000 square feet
Product:	modems
Annual sales revenues:	$30 million
Labor requirements:	120 people

The survey shows that it would cost less to establish and operate this plant in the Canadian cities surveyed than in their regional U.S. counterparts.

Here, as in other industries, labor costs (pay and benefits) were a critical factor. In all Canadian cities examined, labor costs were lower than for the United States. For the facility above, labor costs are approximately 26% lower in Canada.

Facility investment costs averaged $3.1 million in Canada compared with $3.6 million for the U.S. cities.

SOFTWARE MANUFACTURING: *dramatically lower boot-up costs*

PLANT SPECIFICATIONS

Site:	5 acres (fully serviced)
Building:	50,000 square feet
Product:	software
Annual sales revenues:	$17 million
Labor requirements:	100 people

In the comparison of costs in this sector, all eight Canadian cities out-performed U.S. cities.

The major contributors to the Canadian advantage are:

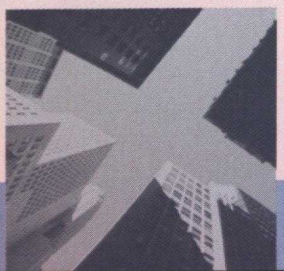
Labor
The KPMG study found dramatic differences in this item – labor costs (pay and benefits) were lower in all Canadian cities examined than for the U.S. cities. For this model facility, labor costs were approximately 31% lower in Canada than in the United States.

Initial facility investment (site and building)
On average these costs are 15% lower in the eight Canadian cities than in the seven U.S. cities. In dollar terms the difference is $2.6 million compared with $3.0 million.

The cost advantage in Canada: *here's where it comes from*

LAND

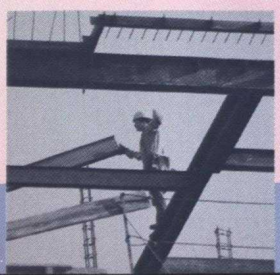
The survey found that except for three cities – Langley, Ottawa and Calgary – Canadian industrial land costs are either comparable to, or lower than, those in U.S. cities. In fact, Canadian cities captured five of the top eight rankings in this category.



CONSTRUCTION

In developing their computer-based model, the KPMG analysts assumed a new plant or "greenfield" manufacturing facility.

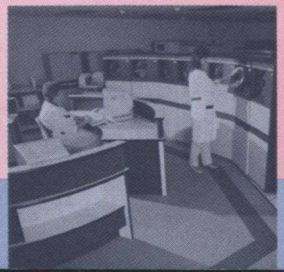
On this basis, Canadian cities took seven of the eight top spots. Halifax had the lowest construction costs of all 15 North American cities, followed by Laval, Moncton, Calgary and Winnipeg; while Langley and London came in seventh and twelfth respectively. And Langley, on Canada's Pacific coast, had lower costs than its U.S. regional counterpart: Bellingham in the state of Washington.



LABOR

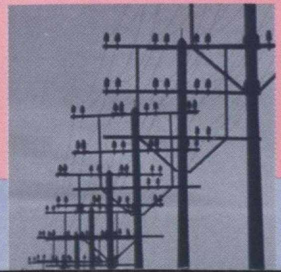
Across the industries surveyed, labor expenses account for about 75 cents of every dollar of location-sensitive costs, and they are the most important factor in the Canadian edge. KPMG's analysts found that when all labor costs are considered, Canada-based companies pay less than their counterparts in the United States.

The greatest contributor to this Canadian advantage is the fact that companies pay less for hospital, surgical, medical and major insurance. In the U.S., premiums for these benefits accounted for 8.2% of gross pay compared with 1.0% in Canada.



ELECTRICITY

KPMG's comparisons show that costs are dramatically lower in Canada. Led by Calgary, Winnipeg, Langley and Laval, Canadian cities occupied six of the eight lowest-cost rankings in the survey.



TRANSPORTATION AND DISTRIBUTION

The study shows that transportation costs vary by jurisdiction and industry in both countries, but that rates are generally lower in Canada than in the United States.

Reckoned in dollars per metric ton, Canadian road transportation costs are 32% lower than U.S. rates.

The difference stems from the combined influence of exchange rates and different government limits on gross vehicle weight in the two countries – they are higher in Canada than in the United States.

TAXATION

Federal, state, provincial and local tax rates vary significantly among jurisdictions covered in the survey. However, some of the world's most generous tax write-offs for eligible research and development give Canada-based companies a significant cost edge.

For example: Canadian tax regulations allow a 100% deduction for all qualified current and capital R&D expenditures and an additional 20% federal investment tax credit.

In addition, five provinces – Nova Scotia, New Brunswick, Quebec, Ontario and Manitoba – provide tax credits for spending on R&D. By comparison, in the United States, the general tax credit at the federal level is 20%.