



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
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THE "UNKNOWN" CUSTOMER

Address by Mr. Donald Gordon, Deputy Governor of the Bank of Canada, to the Annual Convention of Advertising and Sales Clubs of Canada and the United States, in Cleveland, May 22, 1948.

You are the technicians of the great modern profession of salesmanship. The sales executives and the advertising executives gathered here tonight have developed and refined the technique of selling until it has become something of an art and a science.

In this technique you have established the rules that are fundamental to success. I do not propose to discuss all of them tonight... nor am I qualified to do so...but I do want to single out one.

That one cardinal rule is to "know your customer."

The sales and advertising fraternity have outdone themselves in research to learn the likes...dislikes...prospects...and state of mind of those who are likely to be customers for their product or service.

This makes the paradox I wish to present to you tonight all the more provocative.

In the country where salesmanship has reached its most extensive development...where the greatest pains are taken to know the circumstances of every customer...where it is not unusual for men and women to be asked titillating questions about their private affairs in order that great sales campaigns can go forward...it is strange to discover that one of the biggest customers of all is practically unknown.

What information does circulate about this customer is often sketchy and misleading.

The customer I have been speaking of is, of course, Canada.

Last year Canada was responsible for the purchase of two-and-a-half billion dollars worth of American goods and services. That is big business. It is close to one-seventh of all the international business done by the United States.

The first reaction of many Americans to the challenge that they know little of their most important customer is to say, "We agree that we should know more about you...But you seldom tell us anything about yourself. How can we be expected to know?"

I agree at once that Canadians are not free of responsibility in this matter. I admit that a good customer...who wants to become a better customer...has an obligation to supply information on his own initiative. But even if we do need to "toot our own horn" more than we do, that does not alter the fact that the scale of your commercial interests calls for much more initiative on your side than has been apparent in the past.

Canadians keep themselves informed about the United States in great detail. We use a great many of your products. We read your newspapers...see your films...listen to your music...follow the fortunes of your major league teams. When headlines move up or down an inch on Park Avenue, it is known the next day in Saskatchewan: I suggest that it is in your direct interest to cultivate more awareness on your part of the Canadian scene. I know you will find a study of facts about Canada a stimulating and rewarding experience.

As my contribution tonight I intend to direct your attention toward some of the facts about the "unknown customer" Canada...and I hope you will not expect me to let modesty handicap me in my effort to show you some of the more significant features of my country. I intend to lean on the familiar pattern of the questionnaire, as used by research organizations to discover the facts about potential customers. I will take the role of respondent to four broad but meaningful questions.

The first question is: What features of Canada's past have a bearing on her potential value as a customer? How did Canada get where she is today?

Our country is now one of the world's great industrial powers. This is a far cry from the primitive frontier regime of a hundred years ago...indeed from the comparatively simple Canadian economy of the early nineteenth century.

The first ten years of the century were for us years of almost fabulous growth...years in which the population increased by one third. In 1914 the First Great War brought a great challenge to this active but simple way of life. What little industrial capacity we did have was not easily turned to the needs of war. Despite this, by the end of that war, a major transformation had taken place. Not only was industrial production expanded considerably, but a marked diversification of production was achieved at the same time.

In the thirties, however, a pessimistic viewpoint began to be heard. It was said about Canada...as it was also said about the United States...that we had just about reached the limit of our growth. The market for agricultural products melted away in front of our eyes... exports of our manufactured goods were cut to a trickle by tariff restrictions and counter restrictions.

Nevertheless we survived the "hungry thirties" in better shape and with less economic distress than most countries. Indeed it would be fair to say that a characteristic of the Canadian economy has been that it does not swing to extremes...even in the booms and depressions that have overtaken the world from time to time.

By September 1939 when markets had strengthened, employment had risen and production had gained momentum, there were indications that we were back on the road to reasonable prosperity. And, September 1939 again brought the challenge of war to western civilization.

Under the drive of this challenge, Canadian activity speeded up tremendously. Existing plant capacity expanded by leaps and bounds... new industries mushroomed everywhere.

In some of these industries, aluminum, for example, Canada became almost overnight a top world producer. The aircraft industry... which was almost non-existent in Canada before the war...eventually produced 16,000 planes including trainers, fighters and some of the heaviest types of bombers. Canadian plants assembled several thousand other planes and in addition supplied millions of dollars worth of components for the famous B29 and so on. The mobility of Montgomery's

armies from the sweep from El Alamein to Tunis was due in large part to the timely arrival of large quantities of Canadian military vehicles. Starting from scratch, Canada produced 80,000 army vehicles in the first fifteen months of the war. Canada was among the earliest and largest producers of radar equipment, as well as a great quantity and variety of ordnance, including the most complicated types. The Canadian ship-building industry, which before the war had only about thirty shipyards with limited facilities, was so expanded that by the end of 1944 some 450 different types of naval escort vessels, 2800 vessels for other special war purposes and about 3,400,000 tons of cargo vessels had been launched.

When the United States entered the war in 1941, Canada was in full stride and had become Britain's arsenal as well as her granary. By the winter of 1943-44 the volume of Canadian industrial production was double that of pre-war years.

Now...these facts are all very impressive. A sales executive who might come upon them in the answer to our hypothetical questionnaire would almost certainly interpret them as evidence of a vigorous and resourceful country...in other words, a country with a bright future as an international customer.

Now let us turn to the second question. What are the highlights of Canada's economic situation today?

The change-over of our industry from war to peace-time production was accomplished with more speed and more smoothness than many had dared hope. The demobilization of armed services proceeded hand-in-hand with the re-absorption of these Canadians into business and industry. Investment in new plant capacity was speeded up tremendously.

The world wanted asbestos, wheat, lumber, automotive vehicles and many other Canadian manufactures in quantities beyond all previous experience. Heavy export demand, together with rapid capital development and high levels of consumption, have kept the "safety valves" on our economic engine near the popping point. Employment and production rose to the highest peacetime levels in our history.

Reflecting this prosperity, Canada's financial condition improved enormously. Farm income was high and farm real estate... which for years had laboured under a heavy mortgage load...worked itself all but free of this burden. Estimates show a startling change in gross national production which rose from about \$5 billion in 1938 to over \$13 billion in 1947 and represented an increase in physical volume of more than two-thirds. All this meant that governmental revenues remained high, and the federal budget showed surpluses, despite large reductions in taxation.

Now why...in the midst of this material well-being...this discovery and development of vast new resources...this great increase in our productive capacity and this ready market for our products... why you may well ask, why is it that Canada has been obliged to cut down its purchases of certain goods and services from countries in the U.S. dollar area? What is it that has caused your best customer to stop buying some things entirely and severely limit her purchases of others?

The short answer to that question is that Canada has been selling large quantities of her products on credit and at the same time has paid cash for the goods and services which she bought. To understand that more clearly, however, one needs to look at the pattern of Canada's trade and think about the way it operated in normal times.

Before the war, Canada sold a large proportion of her exports overseas, especially to the United Kingdom, and received payment in a form which could in turn be used to pay for Canada's heavy purchases from the United States. This form of multilateral trade, as it was called, was a simple and orderly system but it was only workable if each country produced enough goods and services for sale to other countries to balance off the goods and services which had to be bought from other countries. In war-ravaged countries the disruption and dislocation of industry and transportation meant that they could not produce anything like the goods and services to balance off against the enormously inflated requirements for the products of other countries.

In these circumstances, as a matter of enlightened self-interest and in company with the United States, Canada extended generous credits to help get these former customers back on their feet. The Canadian Government disbursements on these credits and on relief grants to other countries have already amounted to nearly \$1,900 million... which would be comparable to around \$34 billion in terms of the American economy...a Canadian version of the European Recovery Program of no mean proportions.

The rest of the story is known to all of you. The European countries...hampered and bedevilled at every turn by unforeseeable penalties and difficulties...did not recover as rapidly as had been hoped. Consequently it was necessary for these countries to draw on the credits we had established for them much more rapidly than had been anticipated.

To the extent that these credits were used it meant, of course, that Canada did not receive cash. In the meantime, Canada paid cash for the heaviest imports from the United States on record, and as a result of so doing had to draw heavily on its own reserves of gold and U.S. dollars. Indeed this drain became so rapid that towards the end of 1947 it was necessary to take action to reduce our U.S. dollar expenditures and conserve our U.S. dollar reserves for essential purchases. So it was that a temporary programme of trade and travel restrictions was put into effect under which some goods from the U.S. dollar area were prohibited, others placed on fixed quotas, and still others made subject to permit.

You will notice my reference to a temporary programme of restrictions. This, of course, is in the firm expectation that our European customers will, in some reasonable period, be able to stand once more on their own feet. A new and hopeful initiative in this direction has been taken by the United States in the form of the European Recovery Program.

I would like to emphasize, however, that valuable as this Program must be toward the final solution of the difficulties of these European countries it is not...by itself...the answer to the Canadian foreign exchange difficulties. In the short run it should, of course, enable Europe to continue importing essential supplies from Canada and enable Canada to earn more cash on her shipments to Europe than would otherwise be the case. This in turn would enable Canada to maintain the flow of essential imports from the United States...without which our productivity would be impaired. However, we should also keep in mind our stockpile of U.S. dollars has fallen entirely too low, for even normal requirements and that we must build it up again. This means that we must earn even more U.S. dollar exchange out of our exports than we spend. The extent to which we can reach both these goals...that is to restore our ability to pay for our imports and to build up reserves while continuing to extend some assistance to European countries...will be the measure of our success in meeting our so-called United States dollar problem.

I shall move now to the next query on our questionnaire.

What does Canada's Canada's economic future look like?

As you probably know, Canada already has the largest hydro electric power production per capita in the world. On a per capita basis our present water power development is five times that of the United States...and so is our potential. One of our war-time installations, the 1,400,000 horsepower Shipshaw development in central Quebec, is presently the world's largest producer of power exceeding even your own Grand Coulee. Other projects now under way or planned will increase our installed capacity by more than 20%, not to mention any power which may be developed on the St. Lawrence. I firmly believe that the industrial and strategic needs of our continent will in due course overcome existing obstacles to the St. Lawrence Seaway. When this happens, I believe this Great Lakes basin on the Canadian as well as the American side will become an industrial area the like of which the world has never seen. Meanwhile the need for power is such that the Province of Ontario and the State of New York have been negotiating for the immediate development of some of the Seaway's power potentialities. The Canadian share of the project would be more than 1,000,000 h.p.

Our most spectacular fuel development, however, relates to oil. Since the first Leduc well, in northern Alberta, blew in a little over a year ago it has become clear that a major new oil field has been discovered. One company alone is spending \$80 million in exploration and development in the Alberta area. Geologists believe that some of the continent's richest oil resources lie in this area. Over and above all this mention might also be made of that fabulous unknown in the far north of Alberta, the Athabaska tar sands. The United States Bureau of Mines has estimated that these sands contain considerably more oil than the rest of the world's proven oil reserves combined, or roughly 250 billion barrels. Work on methods of separation is being vigorously pursued by private and governmental agencies.

Canada has been lavishly endowed with mineral resources. It is already the world's largest producer of nickel, platinum and asbestos, and a leading producer of gold, copper, zinc, silver and lead. Expansion in the aluminum industry increased its capacity by more than ten times since 1937 to some 500,000 tons a year at the present time. Canada is also one of the world's two major producers of vital uranium ore. Most of this ore comes from the Great Bear Lake district of the Northwest Territories, but recently new discoveries of uranium have been made in central Manitoba.

Although Canada is still a net importer of iron ore, our Steep Rock mine is rapidly becoming a major producer of particularly high grade ore, averaging about 60% purity. Still more important, it is now established that there is a very large and rich field of iron ore on the Quebec-Labrador boundary, and preliminary work has already begun on a railway from the Gulf of St. Lawrence into this field. When its full potentialities are known, the Quebec-Labrador deposits may well compare with the Mesabi range itself. Although exhaustion or even serious impairment of the Mesabi reserves is not yet in sight, the tremendous drain of the last decade and the defence requirements of this continent suggest the urgent need for supplementing Mesabi output with ore from other convenient sources. The Quebec-Labrador deposits and the St. Lawrence Waterway will, I believe, supply part of the answer.

The world has been running through its forest resources at an extravagant rate and has seriously depleted its supplies of accessible timber. Canada is fortunate in having over 800,000 square miles of productive forest, an area twenty times the size of Ohio. In British Columbia we have one of the few readily accessible virgin timber areas remaining on this continent.

Our newsprint output is four times that of the next largest producer, the United States, and more than half of the world's total. Expansion now underway will have increased our pulp and paper capacity by some 20% since the end of the war.

The development of these natural resources will be a big thing in itself but even more important in the long run will be the processing industries which grow up on the base of these raw materials. Canada is rapidly advancing beyond the status of a "hewer of wood and a drawer of water."

Consider for a moment the extent of our capital development. Last year all capital expenditures in Canada totalled \$2.4 billion and they will be considerably larger this year. It would take a longer time than I have available tonight merely to list the main components of this enormous programme. One of its most interesting features is the extreme diversity, ranging all the way from perfume to rolling mills. This diversity is another indication of our growing industrial maturity. In relation to national income, our capital expenditure is running over one-third higher than even the high rate prevailing today in the United States. It should not be surprising that this is so because Canada is only now reaching the stage of development which the United States went through in the first quarter of this century...when resources, capital investment, growing industrial know-how, and immigration combined to produce phenomenally rapid growth.

As a footnote to these facts I should mention that the current rate of immigration offers proof of the attractions of Canada to other people. The fact that it is generally approved in Canada also shows the confidence which we have in our own future growth and capacity to absorb newcomers. Immigrants are carefully chosen for the contribution which they can make to Canada, and are now being added to our population at a rate of more than half our own natural increase.

Even from this very sketchy presentation of some of the prospective developments of Canada's immediate future, I would suggest that a sales executive...Canadian or American...would conclude that Canada is a customer well worth cultivating and well worth knowing.

Now let me turn to the last query on our questionnaire. What are the personal attitudes and characteristics of Canadians? What are our human resources and what bearing do they have on our possibilities as a customer?

I think I need to take less time with this reply than with any of the others. Americans know Canadians intimately as individuals. They know that they have many tastes, attitudes and aspirations in common. Canadians are perhaps more cautious...more conservative...in their outlook than Americans (which may or may not be a good thing) but they are an immensely vital people.

The characteristics that are implied in the word "Canadian" have emerged more slowly than those implied in the word "American". In my opinion, the effort to create those characteristics and to win recognition for them has brought a sense of achievement which will not lightly be given up.

This brings me to the point where I might refer to the idea of Customs Union, of which we hear much these days. It would be fair to say that Canadians appreciate the interest which prompts this idea, and most of them feel that it should be thoroughly examined. But in thinking of this idea one or two points should be kept in mind as a

safeguard against hasty conclusions. Apart from the many real and practical difficulties in the way, I believe that the new maturity of the Canadian people is one of the real factors for consideration in any such plan.

From what has been said of Canadian achievements and Canadian character it will be clear that those who study the idea of Customs Union should define exactly what they mean. If, for example, the idea assumed eventual political union, then Canadian opinion, both past and present, has been stated on more than one occasion. Canadians are proud, and justifiably proud, of their accomplishments as a nation. Moreover, the review I have given will indicate that Canadians have reason for faith in their own future. We are also convinced that we have a serious part to play as a self-governing nation in world affairs. Consequently I venture to suggest that Canadians will not lightly surrender their position as a free and independent nation no matter how attractive the material benefits can be made to appear.

The real point that needs consideration in the eyes of Canadians is the extent to which trade barriers between our two countries may now be out of step with the times. In 1947 Canada, with a population of a little better than 12 million people purchased two billion dollars worth of goods from the United States, exclusive of services. In the same year the United States, with a population of 145 million people, purchased one billion dollars worth of Canadian goods. If trade barriers are in any way responsible for such a wide contrast, then I think reasonable men would agree that the structure is no longer appropriate.

But to return to the question about the personal attitudes and characteristics of Canadians, I conclude my response to this query by saying that the Canadian is a resourceful, hard-working, frank but reserved fellow who likes to pay his own way. He has a growing pride in his country's achievements and a growing confidence in the future. He feels that it is in the interests of both Americans and Canadians that everything possible be done to increase trade between us.

If Canadians are right in this belief, one way, and perhaps the best way for American sales executives to participate is to promote new ways of buying things from Canada or of travelling in Canada. They will have a direct and tangible return from this because they will be helping to provide the wherewithal for Canadian purchases of their own products. This is an eminently practical approach which I feel certain that you as sales and advertising executives will appreciate.

I should also remind you, however, that the information which has been circulating about Canada's present difficulties has been fragmentary at best. It has given rise to occasional pessimism about Canada's prospects...not only in the minds of some Americans...but also in the thoughts of some Canadians. The brief survey we have conducted this evening offers little justification for such pessimism. On the contrary, the shape of the Canadian future that is clearly visible now is such as to provoke the sturdiest optimism and to call for action in keeping with that optimism.

Our physical endowments and proven human capacities will enable us to meet any temporary challenge which these days have to offer. Any reasonable improvement in world affairs will bring immediate betterment to our position. Looking farther ahead, I believe that our accomplishments in the next ten years will put past achievements in the shade. At no time during our history has there been less reason to "sell Canada short."

Having in mind the tremendous importance of the Canadian economy to the Western world and knowing your reputation for translating thought into action, I am confident that you will find ways...not only to promote more buying in Canada...but to prepare yourselves to challenge negative thinking about Canada in the course of your daily affairs. With your help Canada will cease to be the "unknown" customer...and become the "best known".customer...and thus a bigger and better customer than ever.