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Alberta Oil Sands: A Shift in Business Philosophy

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Canadian Manufacturers &
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Introduction

- **Welcome to NBSF 2008!**
- **CME – Brief Background**



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The Importance of Manufacturing & Exporting

- Single largest business sectors in Canada
- Manufacturing directly accounts for 16% of Canada's GDP – Exporting for 21% of GDP.
- Every \$1 of manufacturing output generates \$3.05 in total economic activity – largest economic multiplier
- \$600 billion in annual manufacturing shipments
- \$460 billion in annual export sales
- Canadian manufacturers:
 - Employ 2 million Canadians with wage levels 25% above national average
 - Account for two-thirds of Canada's goods & services exports
 - Account for 75% of private sector R&D
 - Have reduced GHG emissions by 9.3% between 1990 and 2005.



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Key Messages

- Overview of the Alberta opportunity (last two years)
- Challenges to the Alberta oil sands supply chain
- Building East-West partnerships – how will this work?
- Case studies



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Thesis Statement

- For many of us, the opportunities in Alberta represent a major shift in business philosophy and manufacturing thinking



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Oil Sands Opportunities

- Over \$150 billion dollars of investment in Alberta's oil sands over the next ten years
- Will drive an estimated \$1 trillion in total economic activity – over 80% within Canada
- Equivalent of 86 years of exporting to China.



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Canadian Oil sands Initiative

- **REWIND to two years ago**



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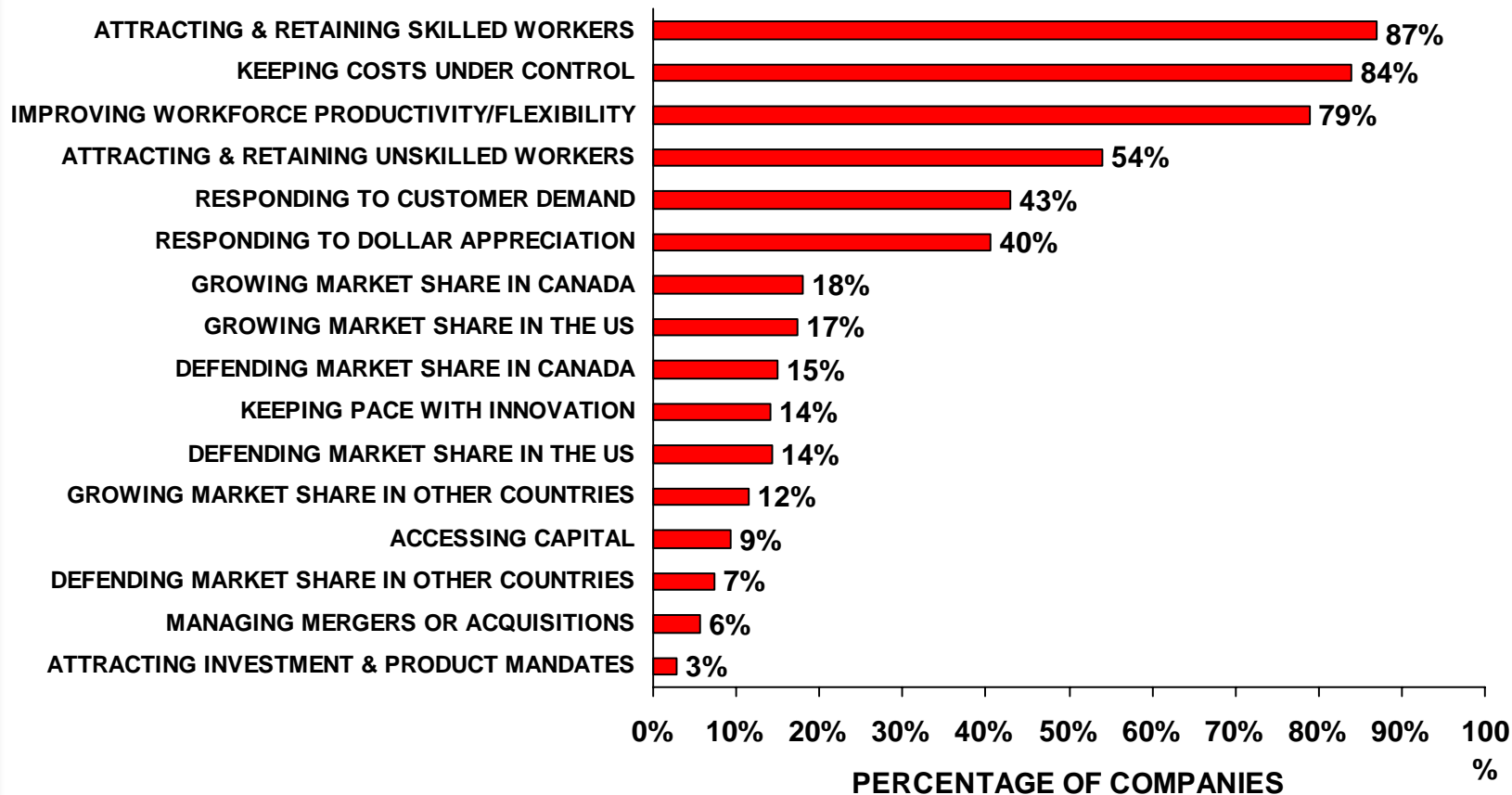
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Most Pressing Challenges





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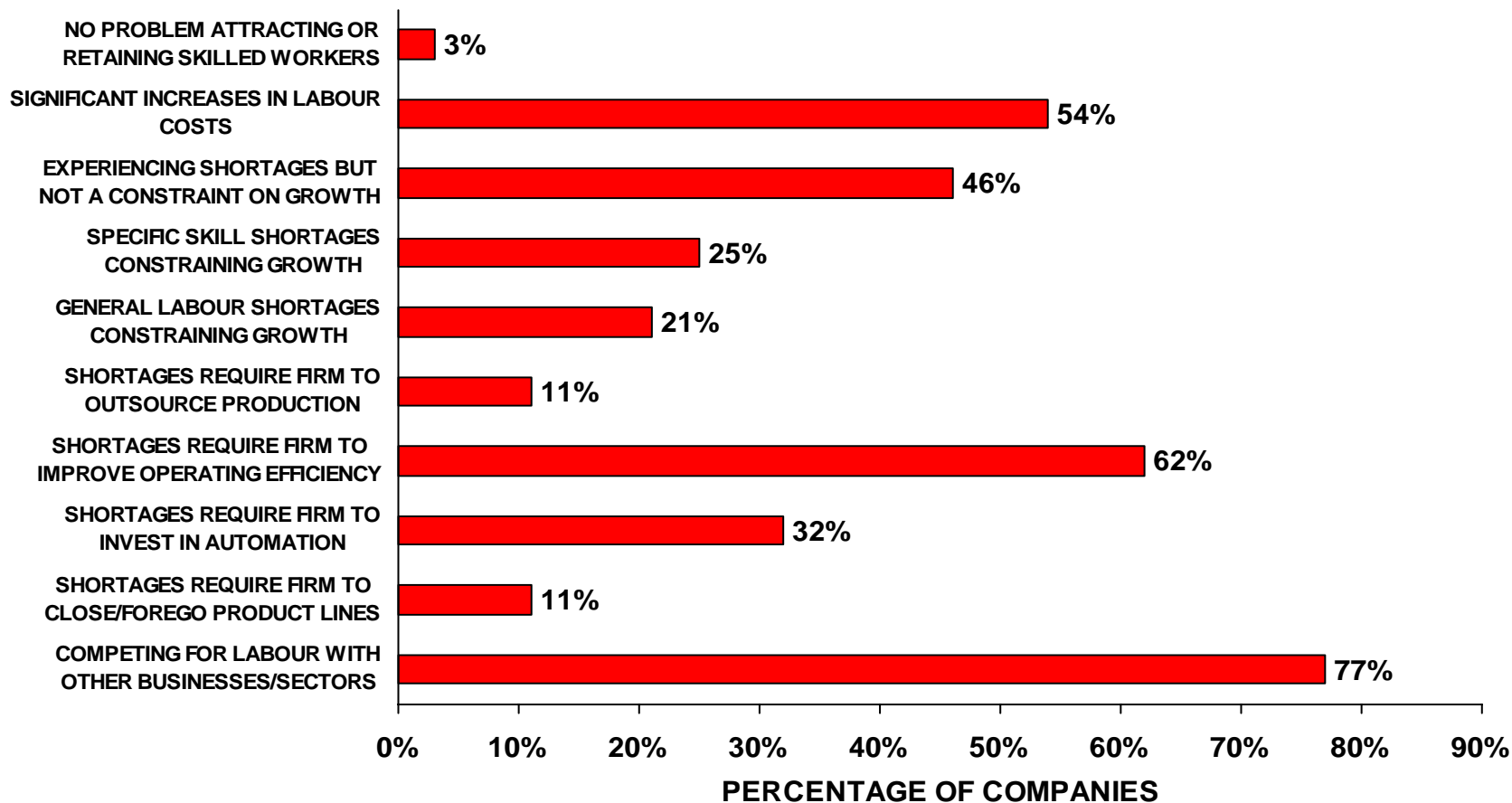
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The Impact of Labour Shortages





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Critical Challenges: Oil Sands Supply Chain

- **Cost overruns**
- **Lead Times**
- **Productivity**
- **Labour Shortages**
- **Customization & Flexibility**
- **Capacity**



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Key Message

- **Alberta needs HELP!!!**



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Canadian Oil Sands Initiative

- Raise awareness and education
- Help Alberta companies expand their supply chain
- Help Canadian companies become market ready



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Canadian Oil Sands Initiative

- ✓ Raise awareness about oil sands opportunities
 - Publications
 - SMART Sessions
- ✓ Help companies become market ready
 - Oil Sands 101 – How to do Business in Alberta
- ✓ Facilitate business partnerships
 - Trade missions
 - National Buyer-Seller Forum
 - www.icosmo.ca
 - Facilitate partnerships between buyers & sellers
 - Pre-qualify potential partners & suppliers



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Canadian Oil sands Initiative

- **REWIND to 1 year ago**
- **NBSF 2007**



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Buyer Perspective

- **Disliked seller approach**
- **Overwhelmed by requests**
- **Did not have access to the right information required for pre-qual (sellers did not know how to market themselves)**
- **Some sellers just didn't understand**



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Other Factors

- **Slight “Slowdown”**
 - Downturn in natural gas drilling
 - Timelines of oil sands projects pushed out 2+ years
 - Royalty review



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Internal Trade Barriers (Real or Perceived)

- **Transportation/logistics**
- **Infrastructure**
- **Translation of Certifications**
- **Contract development**
- **Strategic direction chosen by Alberta companies**



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Alberta Oil Sands Outlook 2008 and beyond

- Estimated \$20 billion to be spent on oil sands projects in 2008
- From now till 2016, over 50 major oil sands projects either proposed, approved, or underway
- More than half are under construction or near completion (ranging from 0.5 billion – 15 billion)
- Price of oil well over \$100 / barrel



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Challenges to Partnership Building

- Alberta economy is dynamic
- NOT a “Gold-Rush”
- Long-term strategy
- Not a simple marriage
- Both sides must buy-in and understand
- How do we really make this work?



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Capacity Building – Alberta

- Strategic procurement
- Supply Chain management
- Contract management
- Automation
- Process Improvement & Flexibility
- Partnering & outsourcing strategies
- Prequalification of potential suppliers
- Time & capability management



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Current Situation

- High dollar
- Ties to low American \$ (75 % of our exports go to U.S)
- Looming American recession
- Border issues
- Competition from China
- Global competition



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Thesis Statement

- For many of us, the opportunities in Alberta represent a shift in business philosophy and manufacturing thinking



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A Shift in Thinking

- Time for a major shift in thinking
- No longer “business as usual”
- Businesses have to be prepared to change!
- “Who Moved My Cheese?” – Be ready quickly change again and again
- Alberta represents the opportunity to change, but the opportunities are not limited to Alberta
 - Global opportunities
 - Other oil and gas markets
 - Mining, nuclear, etc.



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Making the Shift – What does Alberta represent?

- **High Mix / Low Volume**
- **One-of's**
- **Less assembly line, more job shop**
- **Highly specialized, highly customized, and highly complex products**
- **Flexibility**
- **Varying size**
- **Specific customer needs**
- **Collaborative supply chains**



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Keys to Success in Alberta: Strategy

- Marketing
- Pricing
- Re-tooling
- Logistics
- Customer Service
- Project Management
- Supply Chain Management



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Keys to Success in Alberta: Approach

- Building trust
- Long-term strategy
- Dispelling the myths – Alberta is NOT Canada's "Golden Goose"
- Being honest with yourself
- Understanding the market AND culture
- Identifying your customer
- Knowing your competitive advantages
- Marketing yourself appropriately
- Being THERE and being there TO HELP



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Making the Shift

- You should have a strategy for Alberta, but more importantly, Alberta should be part of your overall strategy for change



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Making the Overall Shift

- (Lean, increase productivity, etc.)
- Explore other markets
- Invest in new equipment
- Develop new products and processes
- Innovate
- From generic to custom, from commodity to niche

The opportunities in Alberta require all of this!



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Continuing to Work With You

- **The opportunities represent in large part the future of manufacturing in Canada**
 - Building awareness
 - Educate
 - Facilitate
- **Combining manufacturing expertise – the best of the best in the world – with innovative and collaborative supply chains**
- **Learning from each other and working together !!**
 - Competition is global
 - Building consortia
 - Sharing best practices
 - Asking questions and doing the research



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Alberta Strategy: EPC Perspective

- Meet/talk with all levels of the supply chain
- Client approved
- What's important? – quality, safety records, certifications, *pricing*
- Having the answers – market info, lead times, shop capacity, shop loading, trends
- Suppliers are more like partners on a project
- Each project should be approached individually
- Be prepared, impress, and blow them away!



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Case Study 1

- High mix / low volume
- One-of's



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Case Study 2

- **Re-tooling**



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Case Study 3

- Pricing



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Case Study 4

- **Patience**



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Case Study 5

- **Volatility of the market;
responding to change**



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Case Study 6

- **International competition**



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Case Study 7

- **Innovate and expand to be the best**



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Conclusion

- **No short-term answers**
- **Use Alberta as a stepping stone to make the shift**
- **Good Luck!!!**



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THANK YOU!

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