

NAFTA digital trigger

Investing in deeper digital transformation may be the best NAFTA gift to the business

NAFTA may or may not survive 2018. To prepare for its failure, Canadian businesses have investment in digital transformation for the productivity gains needed to compete successfully. If NAFTA is successfully renegotiated, the digital productivity gains will make Canadian businesses stronger global competitors. A win either way.

Like you, I too am concerned about the end of NAFTA. Since I'm not on the negotiating team, it's not worthwhile to fret about preventing it. What we can do, however, is look ahead strategically. That's why the best farewell to NAFTA from Canadian businesses would be a material, rapid investment in productivity-driving digital capability.

Consumer economic factors, such as real estate prices, debt loads, and dubious (un)employment statistics, are weighing upon the central bank's other concerns such as dollar exchange value, business investment and cash holding levels, minimum wage increase impact, and so on. Then there's anticipation of the impact on the Canadian economy from NAFTA's demise. Still, interest rates remain stubbornly low and it looks like the Bank will have to stand pat for the time being.

Reading the tea leaves from a distance, everything points to the US Administration setting the table to walk away. It will hurt all three nations, but life will go on. There will be trade. It may not be as easy, in the same proportion, or with the same trading partners, but it will continue. It has to: we are an exporting nation.

Unfortunately, studies by business councils, international agencies, and global consulting firms regularly show Canadian businesses to be substantially less productive than American and other global counterparts. One clear cause is not, or

slowly, taking advantage of technological innovation.

The bottom line is Canadian businesses need to prepare to thrive under whatever conditions may unfold. To do that, trading companies absolutely have to invest in productivity enhancement.

Though every business has unique needs for enhancing core business capacities, the indisputable, proven best leverage is to implement (innovative) capability digitizations from mission critical operations to sales to administration.

Now is the time. Many such investments have been deferred over the years. Given what's likely ahead, it's urgent.

If NAFTA implodes, there is almost guaranteed (negative) economic impact on Canadian businesses. These include foremost increased costs to trade and reduced sales resulting from duties, customs levies, and US protectionist policies; and a falling Canadian dollar.

When this happens, businesses will look for other markets; they will probably look harder to reduce (production) cost. The most alluring option is to reduce marketing/sales costs and to trim labour rolls. This is shrinking—exactly at a time when the problem is the need to expand. Thus, the alluring actions are unsustainable unless the business is absurdly overstaffed or flagrant with spending. This is generally not the case. It may have

been so years ago, but after several economic adjustments there's not much fat left to trim.

On the other hand, there is plenty of room for digital productivity gain. McKinsey suggests that digitization globally is under 50% except in entertainment and media, and is typically much lower. Logically: Canada has to be at the low end, and the biggest gains come from earlier implementations. Besides, the cost of investment will be lower now than if a business waits until after NAFTA disappears. The urgency to acquire equipment before the dollar falls farther and makes it even more expensive ought to be obvious. And the dollar will fall farther because of the market's perception of the Canadian economy's wounding and the Bank of Canada weighing less heavily the increased consumer burden than artificially discounting Canadian export prices.

Productivity gains from digital investment now will make the value of that Canadian dollar discount

even more profound. Not only will Canadian businesses better compete on price to a wider international market, but margins will expand. Should the Bank opt to prop up the dollar, such a business will better sustain the required export price reductions.

If NAFTA survives, productivity gain is valuable anyway. Low cost competitors always have the advantage. Making the business more productive is smart any time. More profound digitization of your business is inevitable anyway, so it may as well be done now.

The scared survivor of a "cardiac event" will usually change diet and exercise habits recognizing the urgency for change. While some regress and find themselves in the same terrifying place again, others get fit. Those tend to thrive a long time. Let the current economic palpitations coming from NAFTA negotiation be the same call to action.

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