

Canada Cachet

The bottom line on patriotism

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About 12 years ago, two very different clothing companies found themselves standing at the same crossroads, weighing their Canadian identities against expanding their business.

One was a small family-run coat business, founded in 1957, thinking about moving its operations overseas; the other, a trendy clothier founded by two designers who had met in Ryerson University's fashion program in the 1980s, and suddenly found themselves in charge of a global business that was growing bigger than they wanted.

While the companies are in very different places today, they still have two things in common: They're both successful, and both remain staunchly Made in Canada.

"It would've been such an undertaking to move to Asia ... having the lower costs was tempting, but we felt we were making the decision to stay in Canada for the right reasons," Dani Reiss, chief executive of Arctic coat manufacturer Canada Goose, said in an interview. "Sure, there was some patriotism there, 100%."

Traditional manufacturing in Canada has never been cheap, but with the loonie soaring toward parity and costs rising, especially minimum wages, it has only made moving operations outside the country all the more attractive.

However, the latest federal budget, which promises to remove all tariffs on imported manufacturing equipment and goods, is expected to save manufacturers \$300-million in costs each year. This just

might breathe new life into Canada's struggling manufacturing community, and make

it easier to ignore the beckoning call of shifting factory operations to say, China or Mexico.

In the decade since the company chose to keep

its business operations domestic, Canada Goose has

nonetheless morphed into a global brand marketed on its ability to look good both on researchers in the Arctic wastes and on Hollywood stars on movie sets. A big part of that cachet comes from the fact the jackets are made in Canada, and Canada can be rather cold.

"I don't know what we'd do if it were ever not viable to make our products in Canada," Mr. Reiss admitted.

Meanwhile Judy Cornish and Joyce Gunhouse, owners of Comrags, decided to pull back their business and now only sell their clothing in Canada.

"The company got too large. We said forget it, and went back to being hands-on. It just wasn't fun," Ms. Cornish said. "You can still run a profitable business this way."

Comrags now produces all of its collections out of a cramped 2,000 square-foot Toronto studio with less than a dozen staff, wholesaling to assorted Canadian retailers and operating a flagship store in the city's trendy Queen West district. Ms. Cornish is proud her dresses, which retail between \$150 and \$390, manage to compete for shelf space with \$1,500 Holt Renfrew dresses in "The Room" -- a reknowned retail space in the Bay in Toronto.

Comrags will also likely benefit from the coming tariff removal, as the company sources all of its designer fabric overseas. "There's virtually no textile industry left in Canada," she said.

Even for a business such as Canada Goose, which prides itself on sourcing 90% of its materials domestically, the news will have a profound impact. The company gets some snaps, buttons and zippers overseas.

"This is a great move for the much depleted Canadian apparel industry because it is getting more difficult every day to source raw materials domestically, and the tariffs only made it more expensive to be a Canadian manufacturer," Mr. Reiss said. "I think this move by the government will make 'Made in Canada' viable for more apparel companies."

Now, under the latest rules from the federal Competition Bureau for the use of "Made in Canada" labels, updated in December, the raw materials themselves do not necessarily need to come from Canada.

To qualify for the label, the "last substantial transformation" of a product must occur in Canada, and at least 51% of the direct costs of producing or manufacturing the good has to happen in Canada. The higher-level "Product of Canada" designation requires 98% of the costs to be made in Canada.

However, if components are imported, qualifiers are needed, such as "Made in Canada with 60% Canadian content and 40% imported content."

And in case anybody is wondering, the penalties for breaking these rules are quite severe. A criminal conviction, defined as breaking the rules "knowingly or recklessly," can land you in prison for as long as 14 years, along with a hefty fine.

A company convicted under the civil provision of the Competition Act can face fines of \$10-million for a first offence and \$15-million for subsequent offences. Individual penalties range between \$750,000 and \$1-million.

Of course, there are risks with going the "Made in Canada" route, even if your business is on the up-and-up.

"In the vast majority of cases it's not an advantage," Brad Cherniak, with Sapiient Capital Partners, said. "It's not completely unimportant, it can be part of your business personality, but it's more of an added cost than a benefit."

Even worse is if a company sells itself as "Made in Canada" and is then forced to drop the label. "If you make it an issue and then change it ... that can be a public relations nightmare," he said.

Mr. Cherniak warned that companies looking for some kind of patriotic preferential treatment will be sorely disappointed, as the vast majority of consumers appreciate the sentiment, but likely won't go out of their way to pay more for it. "Especially in a recession, if you're worried about your kids and your job, 'buying Canada' is off the board," he said.

As for Canada Goose, it has managed to successfully market \$500 parkas that are generally more expensive than the competition, in part because of the cost of staying in Canada.

"We might've created this price point," Mr. Reiss said. "We may give up some margin dollars and profits, but it gives us authenticity."

He admits the risks were far greater 10 years ago, before the Hollywood success, but the company went into its commitment to Canada with both eyes open. "We knew if we had to sell for a little more, we were comfortable with that," he said. "Convincing the market to pay a little more, that's something we were prepared to do."