

# Automotive suppliers are on the ropes

With all the bailout billions governments have poured into the automotive industry and the stimulus funding designed to lift our economy, there are still a lot of companies that have been ignored.

Especially amongst Tier 2 and 3 automotive suppliers.

The owners of Waterloo-based Maxtech Manufacturing Inc. ended up mortgaging their homes before deciding they couldn't survive if they kept the Waterloo auto parts factory opened. In October of this year they opted to close the Waterloo plant and stay alive by focusing on their plant in Quebec.

Linda Hasenfratz, CEO for Gueph-based Linamar Corp., the country's second biggest auto parts maker said the wave of bankruptcies in the auto parts sector is worrying.

Linamar, with annual revenues above \$1 billion may have had some money-losing quarters, but it's getting by. In fact Linamar got a loan of \$55 million from the federal government in September to build a research centre. The province will also be kicking in some cash for the project which is expected to cost \$360 million.

But smaller parts makers aren't getting that kind of cash. Companies like Commercial Spring and Tool Company Ltd. (CS) of Mississauga (pictured below).

The company founded and owned by Frank Martinitz in 1991 was a big success story. Martinitz is a tool and die maker originally from Germany. He built a company that racked up sales of \$70 million a year and employed more than 600 people three years ago.

CS growth was so successful that the company ended up owning four facilities and then having to lease a fifth - all in Mississauga. Two of those facilities, including the head office, are on Watline Avenue.

CS Vice President Gurmail Gill says Mississauga was so prosperous that they couldn't find facilities or places to build all in the same area.

Then came the recession.

Automotive was hit so hard that for months it wasn't clear that GM or Chrysler would survive - and the future is not rosy for either.

The 'trickle-down-effect' so beloved of politicians has had a massive impact amongst automotive suppliers but not in a good way. With sales of vehicles down, auto parts weren't needed which put pressure on the entire supply chain. Companies that went under couldn't pay their bills, putting more stress on the companies that survived.

SK Peterson of Oakville is gone, and

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## EDITOR'S DESK



SKD, one of Milton's largest employers went under this past spring. After getting creditor protection from the courts in January 2009, SKD sold its assets and customer accounts to Vaughan-based Martinrea which will likely close down the plant.

There is help available according to Eric Shapiro, spokesman for Ontario Ministry of Economic Development. Shapiro says the government at all levels in Ontario has already stepped up to the plate by bailing out GM to the tune of \$3.5 billion and Chrysler for \$1.258 billion. Without the bailouts, the automotive industry would have suffered "uncontrolled failure and the entire industry would have collapsed."

Back in mid-May of this year the Automotive Parts Manufacturers Association of Canada (APMA) went to the federal government cap in hand at a time when auto manufacturers had temporarily shut down production. APMA said that their members needed \$1.4 to \$2 billion in loans to survive. Ottawa didn't bite.

A month earlier the feds did announce an extra \$700 million to be used by Export Development Canada's accounts receivable insurance program which parts suppliers could tap into.

But how much does that help when companies can't pay? End up seeking bankruptcy protection? Or simply close down?

Add to that the plummeting auto parts market. It doesn't matter how much insurance is available if there aren't orders for what you produce out there.

Gill has seen all this happening to auto

parts suppliers all around CS and says there really isn't aid for companies that don't fit the 'too-big-to-fail' category.

He's also suspicious of what government programs there are - saying it takes six months to a year to qualify for government programs - and CS has done that in the past only to be told at the end that while they qualify for funding - "the funding's run out or the money never comes."

He's equally dismissive of the programs that fund innovative R&D because of the lead time required which he says is about a year. "You have to fill out all the paperwork and wait that year before you can begin the new project," says Gill. "That's just not practical for a company like us."

Not hard to understand that if a project looks like it has legs, CS isn't going to delay it a year to get R&D funding.

Three years ago CS was 95 per cent invested in manufacturing for the automotive market. Even before the bottom fell out of the market, the company was already looking to decrease its reliance on a notoriously low-margin, high risk sector. But it takes time to retool and find new products and markets and Gill estimates they have taken their reliance on automotive down to 85 per cent.

CS has done all the right things. They've invested millions in new technologies and updating their equipment - \$4 million US in the last two years.

Because so much of the automotive industry has moved south, CS has an agreement in place to put a facility in Alabama - not a move they had anticipated a few years ago. But Alabama offers incentives to businesses who build there, labour is cheaper, it gives CS a chance on getting more orders in a 'buy American' climate and it avoids some of the hassles and expense of cross-border shipping. Gill says their main focus will remain in southern Ontario, but this adds another arrow to their quiver.

A facility in Alabama will also help CS position themselves for all their customers who are moving operations to Mexico.

That's another worry - that the growing automotive sector in Mexico will do their sourcing in Mexico, effectively cutting out the Canadian parts

makers who are already getting beaten up on thinning margins and a high loonie.

"It's crazy that we in Canada don't have our own vehicle," says Gill. "Even Italy has the Fiat."

Gill says they've already seen two of their competitors go under.

And some companies just closed their doors, figuring there was no point in financing increasing losses.

"We've cut back on our people and reduced our other costs," says Gill, "but our property taxes haven't gone down. Mississauga promotes itself as a good place to do business, but that's not necessarily true anymore. Governments have given money to carmakers and they're ramping up now, but some suppliers can't finance the upturn and there's no help for that."

He says the banks have raised their interest rates for business while lowering lines of credit.

CS is lucky in the sense that the owner still has cash and is prepared to spend to keep the business going, but Gill says nobody can do that forever.

Gill says they had a good talk with the provincial Ministry of Trade and Foreign Affairs but at the end of the day, their hands are tied.

But CS continues talking to the City of Mississauga.

"Tier 2s and 3s need some assistance," insists Gill. "We're all in the same boat."

And the boat is taking in a lot more water than cash.

"How fast can you burn through cash is what it's about now," says Gill. "It's going to come down to the last man standing. We can last five more years - but we're not making any money."

You have to wonder how many other companies in our region are in the same boat.

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