



Business report: Canada

Canada's boating market is strong, bolstered by a solid economy and steady consumer demand. However, the value of the Canadian dollar is taking its toll on local manufacturers while causing a boom in US imports.

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Cost savings and global sourcing have allowed Princecraft to mitigate the impact of a strong Canadian dollar.

On the surface, Canada's C\$11.5 billion boating market has rarely looked healthier. According to industry statistics, boat sales were up in 2005 compared to 2004, and reports from this year's shows have been strong, indicating that 2006 could be another good year for the marine industry. That was especially true at the country's largest show in Toronto, where dealers reported unusually strong sales and manufacturers like Genmar saw its sales rise by 50 per cent over last year's show.

Bolstered by a solid Canadian economy, with gold-rush-like booms in the western provinces of the country, boat and accessory manufacturers are almost universally reporting solid top-line growth, with many expecting double-digit

sales increases in 2006. US boat and engine imports are also pouring in across the border at record rates, fuelled by the high value of the Canadian dollar versus its US counterpart.

In fact, the reversal of value between the two currencies has created deflationary pressure on boat pricing, forcing prices down at both wholesale and retail levels. "Consumers have been the greatest beneficiaries of this trend," said Sandy Currie, executive director of the Canadian Marine Manufacturers Association (CMMA). "They think it's terrific and have been buying boats at a steady pace. With the show season having started off so well, there are indications that we may have a good year ahead."

Currie estimates approximately 2.2

Canada in summary:

+ Strengths

- Solid economy
- High boat ownership per capita
- Consumer confidence

- Weaknesses

- Strength of Canadian dollar versus US dollar
- Low margins for boatbuilders

million boats are registered in Canada, giving it one of the world's largest per capita percentage of boat owners, third only to Norway and Finland. "We have a pretty diverse cross-section of boat ownership," notes Currie. "Each region has its own type and brand preferences."

But across the country over the last four years, manufacturers have seen a steady upward swing in boat shipments to dealers. In 2002, according to CMMA's top-line annual report, 16,059 new boats were shipped to Canadian dealers and OEMs. By 2004, that number had climbed to 21,704, and although 2005 numbers were not available by press-time, Currie expects last year's numbers to exceed 2004's. (These numbers represent about 50 per cent of the overall Canadian market.)

A tale of two dollars

However, a deeper look into Canada's apparently healthy boating market tells a story that is more complex — and which has become increasingly more disturbing to Canadian manufacturers — than a multi-year rise in sales. The tale surrounds the US and Canadian dollars, and the rapid reversal in the exchange rate over the past three years.

The Canadian dollar has strengthened by nearly 30 per cent against its US counterpart, and this reversal of value has favoured US boat manufacturers (which, according to some estimates, account for 60 per cent of the new boat market). Except for slight rates of inflation, boat and engine costs have remained essentially the same for the US manufacturers over the last three years, but now cost Canadian distributors significantly less. For instance, in 2003, a boat priced at US\$100,000 would have cost C\$160,000. Now, the exchange rate for that US\$100,000 boat would be C\$115,000.

But for many Canadian manufacturers,

Boating geography:



Canada has a land area of 9.9km² (3.8 million m²), which makes it the world's second-largest country behind Russia. More than 3,000 miles separate the eastern and western seaboards. The total length of Canada's coastline, which includes the mainland coast and also the coasts of offshore islands, totals around 202,080km.

Canada probably has more coast and lakeshore than just about any other country in the world and about half of all boating activity is in Ontario — principally on Lakes Ontario, Erie, Huron and Superior.

Most of the country's boating is found within 300 miles of Toronto, an arc that takes in other major cities such as Ottawa and Montreal. Beyond the Great Lakes, there is activity on local lakes and waterways and on the Atlantic and Pacific coasts, which each have very different market characteristics.

The season is shorter in the east owing to the cold winters, and milder but wetter in the west. The average boating season is May-September, but variation by province can be considerable. In BC it can be 10 months, in Ontario five and Quebec just four, and in the Northwest Territories shorter still.

Facts and figures:

Population: 32.8 million
Unemployment: 6.6 per cent
Inflation rate: 2.8 per cent
GDP: C\$1.1 trillion (estimated 2005)
Total marine market output: C\$11.5 billion
Expenditures by boaters: C\$7.1 billion
Jobs in marine industry: 84,000 full time
Government: At the time of going to press, Prime Minister Paul Martin promised to call an early election when a probe into a sponsorship scandal under a previous administration of the current Liberal Party is concluded.

Boat Park:

2,200,000

Boat ownership per capita:

1:15

most riding the wave of strong domestic sales, the exchange rate has slashed deep into their profit margins. Facing off against US products that are suddenly up to a third less expensive, Canadian manufacturers have been forced to lower wholesale prices in order to stay competitive, both at home and in the US — which, for many, is more vital than their domestic market.

After several years of profit-taking, Canadian builders have had to find other avenues to increase margins. High-volume builders like Champion are relying increasingly on exports to western and eastern European markets, where the Canadian dollar has not strengthened as much, as well as expanding its distribution network in the US. Its main Canadian competitor, Doral, has also

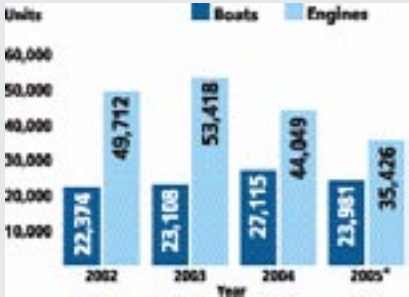
looked to Europe for greater exports, while streamlining its operations to make itself more efficient. Smaller builders like Saga Yachts have decided to relocate production facilities to the US, since most of its customers are based there. PDQ Yachts, which had considered relocating to the US, opted instead to reinvent itself with powerboats and higher-end sailboats.

Other manufacturers, however, were caught up in the currency crossfire. Many Canadian yacht builders watched their margins on new-build contracts (typically written in US dollars) vanish in smoke as the exchange rate shifted, and materials and labour costs suddenly skyrocketed. The greatest casualty was British Columbia yacht builder Westbay Sonship,

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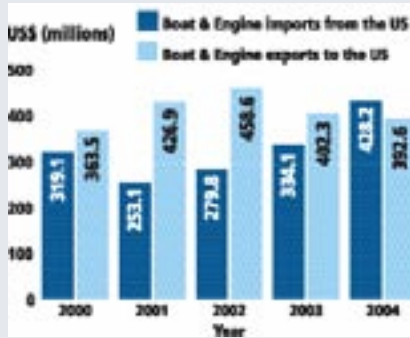


Boat/engine shipments in units to Canadian OEM/dealers



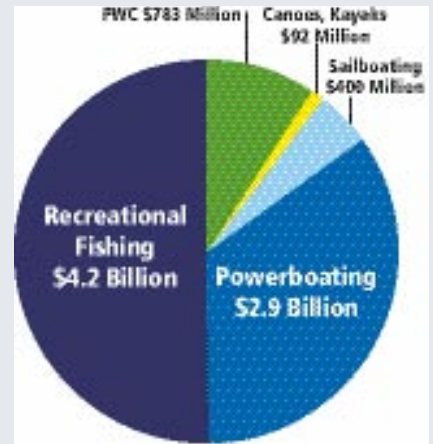
*2005 is only through third quarter. CMMA estimates 2005 unit shipments will be higher than 2004. Source: CMMA

Balance of trade



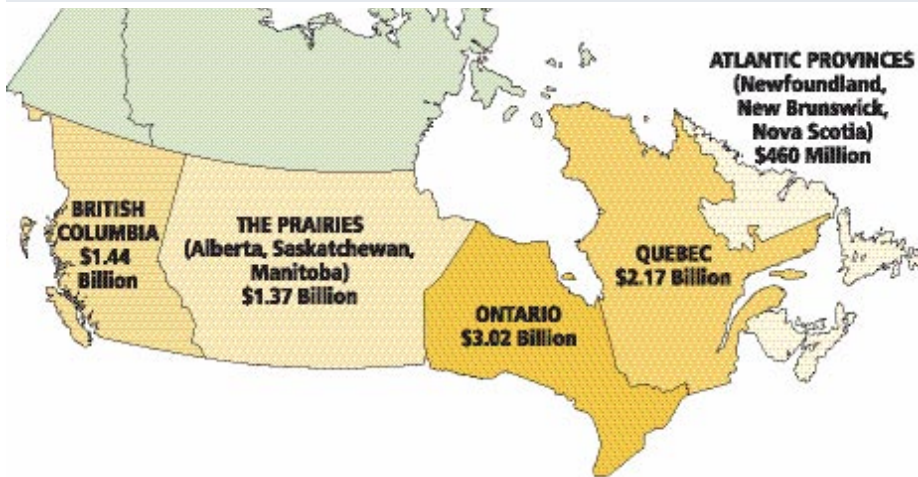
Because of a reversal in dollar values, US/Canadian boat/engine trade has shifted in favour of US imports in the last year. US imports have virtually doubled in value in seven years. Source: NMMA

Canada's boat market



Total Output by Activity. Source: CMMA

Canada's regional boating economy



which last December filed for bankruptcy protection. Ironically, the 38-year-old shipyard had never been busier. "When the exchange rate changed so quickly, it didn't leave any margins," Wes Vermeulen, Westbay president, told *IBI*. But every Canadian manufacturer polled put the Canadian dollar's value as one of its most significant challenges, if not the most important.

Exchange rate fuels US import rise

Recent NMMA statistics illustrate the reversal of trade over the last seven years. In 1997, according to US government figures, boat and engine imports from the US to Canada totalled about US\$240.3 million, while exports from Canada to the US were about US\$447.3 million. Last year, US boat and engine imports virtually doubled to US\$428.2 million, while Canadian exports declined to US\$392.6 million — the first time in

many years that US imports have outpaced Canadian exports.

During that time US companies have reported an increase in exports to Canada. Irwin Jacobs, chairman of Genmar, said its boat sales in Canada are up "significantly" over where they were even three years ago. Brunswick's US Marine is also reporting a sizable increase in Canadian sales.

"We've seen a little more than doubling of our retail sales in the last four years," said Dave Taylor, vice president of sales at the Brunswick boat company. Taylor says much of the growth is due to its Bayliner, Maxum and Meridian brands filling in formerly "open territories" in its Canadian dealer network, as well as a centralising of global sales and marketing at Brunswick Boat Group headquarters in Knoxville, Tennessee, that has made its sales efforts more efficient. US Marine has also made a concerted push to "envelop its dealers" in

programmes that promote, among other things, enhanced customer service. Taylor believes all these factors, rather than the change in dollar value (which he says is a "level playing field" for all US builders) has helped bolster his company's sales.

Aaron Fell, operations manager of the Canadian retail locations of Olympic Boat Centers, a 22-strong retail chain located primarily along the west coasts of the US and Canada, has seen first hand the strong growth of US Marine brands in his dealerships. "If anything, the market's getting hotter," said Fell. Deflationary new boat pricing and historically low interest rates have been driving consumers to his dealership.

But the spike in sales has created a double-edged sword for many Canadian dealerships. "Dealerships are based on gross profit, so we now have to sell more products to keep up the same margins," he says. That means that the same number of service personnel and mechanics have to deal with an increased number of new boats. Fell says that Olympic has learned to operate more efficiently, rather than proceed on a hiring spree.

Fell, like others interviewed for this article, does not see an end to the upward sales cycle anytime soon, especially if Canada's dollar and economy remain strong. Consumers living near the US border have also intensified pressure on Canadian dealers to keep prices low. "This has created a tremendous amount of Canadian business south of the border over the last few years," he said. "Our customers can look on the web and find out what it costs down there. We have to respond to that."

Al Donaldson of the Ontario Marine



Operators Association has also seen the heightened activity in his province, which has about 1.1 million registered boats and accounts for just less than half of the total Canadian market.

Despite generally healthy sales, Donaldson notes “spotty” areas, both geographically and among some boat types. “The entry-level aluminium market seemed to be a bit flat last year,” he said, adding that dealerships near the Michigan border reported lower sales because of layoffs in the US auto industry. Donaldson also noted that heightened security at the border has slowed down US boaters keeping their boats in Canadian marinas.

Yves Paquette, director of the Association Maritime du Quebec, also says that in the province of Quebec, which accounts for 19 per cent of Canada’s boating market, sales at the recent Montreal show were stronger than last year. “Overall, it’s going quite well,” he said. “We see activity evenly across the board, with no category stronger than any other.”

Boom in first time boat buyers

Brian Milligen, a marketing specialist with Marine Marketing Services (MMS) in Alberta, Calgary, believes that the gold-rush-style boom of oil and natural exports from the Prairie provinces is creating an unusually high number of first-time buyers. “I’d guess Alberta has the highest percentage of first-time buyers right now in Canada,” said Milligen. “There’s a fair amount of disposable income floating around.”

Similar refrains were heard from British Columbia, which retains about 19 per cent market share of the boating market. BC is enjoying a construction boom preceding the 2010 Winter Olympics. Christopher Goulder, president of Volvo Penta Canada and former chairman of the British Columbia Marine Trades Association, says that the western province has also been enjoying a boon of new-boat sales, despite a shortage of slip spaces around the Vancouver area. Even more noticeable is the shortage of skilled labour plaguing the industry. “It’s hard to find a person who wants to be a mechanic or carpenter in a yard,” says Goulder. “We have a group of yards who have put together a school to train people.”

Dan Parker, who founded Monaro Marine in 1976, says that the construction industry is “stealing” skilled workers from the local boating industry. “They can offer higher wages, so we really do have a long-term problem,” he said. Parker says the rising costs of real estate and labour at

his facility in Richmond, British Columbia have taken a bite out of his bottom line.

But 30 years in business has taught Parker that bigger is not always better. Monaro has remained a specialised builder with a line of fibreglass boats from 6.4m-9.8m (21ft-32ft). Its 14 workers build less than 50 boats each year. The boats themselves are rarities — an enclosed hardtop and cockpit mated to a deep-V planing hull. “It’s a go-fast kind of boat built for bad-water conditions,” he said. “A lot of our product goes north —

way north to Alaska. We even have a boat just 1,000 miles from the North Pole.”

Sailboat companies turn to the US

Product differentiation and the high value of the Canadian dollar versus the US greenback have prompted changes in the sailboat market. Saga Marine of St Catherine’s, Ontario announced in September that it would be having its boats built by Pacific Seacraft of Fullerton, California by next summer. Saga builds

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In Focus: British Columbia's yacht building industry



McQueen's 108ft *Illusion*. The rise in the Canadian dollar has seen yard sales drop by 25 per cent.

To a man, British Columbia's cluster of yacht builders said that the rising value of the Canadian dollar had a major impact on their business over the past three years. "Essentially, much of what we sell is labour," said Doug McQueen, president of McQueen Yachts in Richmond, BC, noting that it can take 100,000 man hours to complete a 26m (85ft) yacht. "When the US dollar was up, that was a heck of a deal for Americans. But when it went down, a lot of us got caught out."

Although McQueen is busy enough on the day *IBI* visits its yard, it is doing repair work rather than new builds, and it reported a 25 per cent decrease in sales last year and expects about the same this year. Tim Bell, vice president of sales at McQueen, notes that there were 14 local yards building yachts in 1998, and now there are half that amount. McQueen is arguably the longest-established yard in British Columbia. Doug's father, George, began building wooden boats in the 1950s and Doug took over the motoryacht yard in 1982. The yard has constructed more than 50 yachts over 21m (70ft). The second-generation yard seems destined to be around for years to come.

Casualties of the dollar rise

But other brands have not fared as well. Queenship and Sovereign Yachts both went into bankruptcy, and Crescent Yachts' owner Jack Charles decided to retire and closed its doors. Westbay Sonship has been the biggest casualty of the dollar's rise. It filed for bankruptcy protection in December. Having written all of its earlier contracts in US dollars, there was simply no profit margins left to keep the company afloat. Westbay president Wes Vermeulen told *IBI* that the yard is fulfilling its existing contracts, and that its full crew will be working until mid-year. "We're looking at a plan to come back and seeking new investors but nothing's in place yet," he said, adding that they were trying to take on new projects.

Still, even with the loss of yards over the last seven years — the culling started with the dot.com implosion — there has been a rebirth in the yachting community. Richmond Yachts, which builds custom yachts from 37m-46m (122ft-150ft), is now in the former Sovereign yard. It has a 70,000ft² covered facility that is state-of-the-art. "We are ready to launch a 142-footer and have two 145-footers on the go," said Richmond Yachts general manager

Keith Kiselback. "We have 80 workers but are going to have to ramp up employment quite a bit with these other yachts. We're recruiting constantly."

Even more compelling is the story of Queenship and Crescent, which were rescued from the yachting world's dustbin by a group of investors headed by president Jim Hawkins. "We're running them as two separate companies," notes Hawkins, who has a longstanding history with different BC yards. Queenship will continue to produce yachts in the mid-size range from 18m-35m (60ft-115ft). "We have a 70-footer on the floor right now and are about to sign a contract for an 83-footer," said Hawkins. He added that rescuing the assets of Queenship from receivership took "time and effort." Buying the Crescent name from its former owner was "much easier."

Hawkins says that the two yards will provide a "cross-collateralisation" of services. "We see the dollar issue as a significant challenge but we buy currency forward so believe we will be able to work through it," said Hawkins. "We also have a flat corporate structure beyond the people on the floor. We believe in multitasking and efficiency."

Building a reputation for quality

The former Crescent yard is now being used as a refit operation called Platinum Marine Services. General manager Tim Charles is the grandson of the former Crescent owner, and 90 per cent of its 60 employees are former Crescent workers. The 45,000ft² building in Richmond, with its 220-tonne Travel Lift, allows for megayacht refit and repair services as well as new builds. "We realised that there wasn't a Vancouver-based repair yard with the facilities and experience of our crew," said Charles.

Charles says the former Crescent yard is the largest indoor repair and refit facility in British Columbia, and expects to grow in the next six months.

Ron Rayburn, who owns Rayburn Custom Yachts, is the one yard owner who sees a negligible impact on sales due to the rising dollar. "It has impacted our margins for contracts on the go in US dollars," he said. "But I don't think it's had a negative impact on the consumer. They still want to buy our yachts and are interested in the quality we deliver. The dollar's not a decision maker for them."

Rayburn said he changed the direction of the company in 1998, focusing on quality. "Before that, we typically produced low-cost projects," he said. "But I saw there was too much competition from offshore and felt for our long-term survival that we would need to grow beyond that part of the market." Rayburn says that his yacht brand's design is "contemporary without being too flashy" with an emphasis on quality that has given it a strong name in the marketplace.

The same can be said for McQueen Yachts, with its Ed Monk-designed hulls. "We've never really marketed our product, but have gotten new orders through our reputation," said Doug McQueen. "And we're comfortable with the size we build and have never been tempted away from that."

Canada's outboard industry is not as tightly bound to new boat sales as it is in the US.

high-end cruising sailboats from 10.7m-14.6m (35ft-48ft).

"The increasing value of the Canadian dollar seriously affected the revenue and was starting to erode margins," said Allan Poole, Saga president, in a statement.

"Like many Southern Ontario manufacturers, we have had to seek alternative sources. This move allows us to continue providing a high quality product at a good value price." Poole said that he turned to Pacific Seacraft for its reputation of building durable yachts for bluewater cruising and circumnavigation.

PDQ Yachts of Whitby, Ontario also considered the idea of moving production to the US several years ago as Canada's dollar approached 85 cents per US\$1. But it ultimately made the decision to maintain production in Ontario.

"That stopped being a priority for us," said Rob Poirier, vice president of marketing. "It certainly damaged our sales at the time, but it forced us to turn to new products and markets that have been growth opportunities."

Outboard market in "state of play"

The outboard market in Canada, which fluctuates between 50,000 and 65,000 units in wholesale shipments, is also healthy, according to different manufacturers. But at least one sees a "state of play" and transition away from traditional distribution. Unlike the US outboard market, which has seen the majority of its distribution move from dealers to boatbuilders with boat/engine packages, most outboards in Canada are still sold individually to dealers, including



20 per cent of the total market share, which is sold to “fish camps” servicing tourist anglers.

The strong Canadian dollar has dampened that tourist market somewhat and that, in turn, has had a slight but noticeable impact on outboard sales over the last three years. According to CMMA statistics, the number of loose outboards shipped in 2004 was down by almost 20 per cent compared to 2003. But for 2005, the numbers seem to be trending up again, and CMMA predicts they will top 2004’s number of units shipped.

“I wouldn’t say that we came into model year 2006 from a period of enormous growth,” said Rick Layzell, national sales manager of Yamaha Marine Canada. “But I would call the outboard market ‘healthy’ right now. Our dealers are selling 2006 model year product at a profit, and most of our inventory segments are where we want them to be.”

Layzell says that because most outboard distribution is handled from engine builder to the dealers, Canada’s outboard industry is not as tightly bound to new boat sales as it is in the US. But that presents distinct challenges, he says, in inventory sell-through because of the short boating season, and the fact that dealers are reliant on a smaller boating population. Inventory may not move as fast, and dealers have to be more selective in their engine choices, Layzell notes.

Packaged boats on the increase

Adrian Rushforth of Mercury Canada notes that the market for Mercury outboards has been transitioning away from individual dealers toward more packaged boats. “It’s changing because many of the boats are coming from the US,” he said. “In the US, the percentage of packaged boats versus loose engines is about 80/20. In Canada, it used to be the opposite, about 20/80. But I’d estimate that it’s now about 50/50. That has obviously impacted the market quite a bit.”

Rushforth’s observation is backed up by the CMMA figures. In 2003, 50,351 loose outboards were shipped to Canadian dealers. A year later, that figure had dropped to 44,049 units. While a dip in outboard sales could account for the lower year-over-year figures, CMMA figures also show that shipments of new outboard-powered boats to dealers grew by nearly 3,000 units over the same time.

Rushforth said the Brunswick acquisition of US brands like Lund, Crestliner and HarrisKayot have meant that more boats are shipped into Canada with engines. The integration of

SmartCraft technology on Mercury outboards, and the new high-tech Verado four-strokes also require rigging at the boat factory rather than at a local dealership. The exchange rate has also made boat/engine packages from the US significantly less expensive for dealers than buying loose motors in Canada.

According to another source inside the outboard industry, requesting anonymity, the boat/engine package transition has hurt Mercury Canada. Not only has it lost outboard sales to boat/motor packages supplied by Mercury’s US division, but it

must reimburse dealers for warranty work performed in Canada. The source also said that many small Canadian dealers aren’t “too happy” with the boat/motor packages, instead preferring the flexibility of ordering individual outboards to suit each customer.

Similar to the boat market, some US dealers have also been enticing Canadian customers across the US border with lower prices. On some higher-horsepower models that could amount to thousands of

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dollars. Some are advertising in Canadian boating publications, introducing a grey market to the outboard industry.

“Everything’s going through a period of great change right now,” said the source.

Change seems to be the watchword at the Canadian behemoth Bombardier Recreational Products (BRP). The manufacturer of Sea-Doo personal watercraft and Johnson and Evinrude outboard motors has undergone significant changes since breaking away from parent Bombardier Corp.

BRP’s outboard division announced last April that it would drop its line of 40hp-225hp Johnson four-stroke outboards, and replace them with the Evinrude E-TEC line from 40hp-250hp. The company also discontinued six carburetted models from 6hp-50hp.

Roch Lambert, vice president and general manager of the BRP outboard division, said that the move has resulted in minimal growth of top-line sales, but that profits are up because of the higher margins on E-TEC engines.

“Retail sales of E-TEC engines are about three times as high as they were a year ago,” said Lambert. “Sales are good in the high-horsepower engines and new mid-range engines also have significant backlogs. Our plan to convert buyers to the new technology seems to be working.”

Discontinuing the smaller carburetted two-stroke motors caused a “short-term” loss of unit sales for BRP, says Lambert, but they were not “a long-term value proposition” for the engine manufacturer. “We lost that market but those engines tended to give us a black eye,” he said. “Customer satisfaction wasn’t high. We saw them as loss leaders, and felt that we had to focus on engines that make money for us and our boatbuilder partners.”

BRP has also sold three of its components factories in the last two years. Most recently, it sold the Delavan, Wisconsin facility responsible for its E-TEC injectors to Synerject, a joint division with Siemens and Orbital. (Orbital manufactures the injectors that go into Mercury’s Optimax engines.)

Lambert said that Synerject has the technical expertise to bring the facility to the “next level” while delivering more cost-effective components to BRP.

BRP’s Sea-Doo and Sportboats division, the other component of BRP’s marine business, has reported an increase in shipments and retail sales for 2005, though margins were tempered by the Canadian dollar. Revenues for its most recently reported third quarter were down compared to the previous year, but



AutoNav has seen sales rise by 50 per cent in 2005.

“Retail sales of E-TEC engines are about three times as high as they were a year ago.”

that had more to do with a decline in ATV and snowmobile sales (which are also part of BRP’s Motorsports division) than PWC and sportboat sales.

In fact, according to both wholesale and retail numbers in the US, personal watercraft sales were up fairly dramatically compared to 2004. “Industry sales were up roughly 10 per cent year over year,” said Pierre Arsenault, vice president and general manager of the Motorsports division. Arsenault believes that greater sales can be accounted for, in part, because the loud, obnoxious stereotypes of PWCs has been replaced by one that is environmentally friendly. “There were many social acceptability issues hurting sales in the past,” he said. “We believe these are no longer present.”

Arsenault adds that growth has also been fuelled by two-stroke owners who have decided to replace their aging PWC with four-stroke models. Last year, BRP invested C\$10 million into its Valcourt manufacturing facilities, according to local newspapers. The 200,000ft² facility consolidates the production of Sea-Doo PWC with Ski-Doo snowmobiles into one plant. The new facility uses state-of-the-art automotive manufacturing processes, and allows for increased efficiency as well as adjustment to market conditions. Snowmobiles will be built for six months and PWCs for the other half of the year.

Arsenault added that shipments of Sea-Doo sportboats (built at its facility in Benton, Illinois) have increased. “We’re happy from a retail standpoint,” he said. “We’re still the market leader for both sportboats and personal watercraft.”

Equipment manufacturers report good growth but tighter margins

Reports from Canadian manufacturers of components, electronics and accessories is much the same as with boatbuilders — sustained growth which has been tempered by tighter margins because of the strong Canadian dollar.

“We’ve been growing year by year in our marine category since we started in 1995,” said Robin Martel, president of Fugawi, a Canadian company that sells PC-based navigation software to the recreational marine market as well as land-based tracking software.

That diversification, according to Martel, has helped Fugawi maintain steady growth into different markets. “We reach several demographics, from liveaboards or cruisers to small boats,” said Martel. Fugawi recently added support for Navionics electronic charts, giving it worldwide marine coverage.

Fugawi also works with a number of uncommon electronic formats. “Our software can load and run 20 or 30 digital formats,” said Martel. “That lets you read a government map of remote Africa or the coastline of the Chesapeake from Navionics. And using your PC can be easier than using a chartplotter. There are more boats with computers below-decks, so owners can check their emails and do plotting at night. It’s often a good backup to the helm station.”

Kobelt Manufacturing, based in Surrey, BC, has looked to enter other markets recently, while simultaneously expanding its product line, according to vice president Dan Kobelt.

Kobelt is a family-run business that manufactures steering, engine controls



and brake systems. Jack Kobelt founded the company in 1962, and is still active within it. Kobelt has been a major player in recreational boating but has recently made inroads into the commercial market. "We're notable for using quality components — such as bronze when others use plastic — and the commercial guys realise that," said Kobelt. "They can't afford breakdowns at sea."

Kobelt continues to sell to a range of top-tier builders in the recreational industry, including brands like Cobalt. It has launched innovative products in the last year, including the integration of its 6501 illuminated twin engine control into a Norsap 1500 helm seat on one armrest, and 6502 electronic autopilot and rudder controls on the other armrest.

Driving down cost and diversifying

ComNav, another BC-based company, has seen significant growth over the last five years as it expands its autopilot, GPS compass, instrumentation and other marine electronics lines. The company has its products on vessels as diverse as commercial ferries to sailboats participating in round-the-world races. ComNav also builds private label autopilots for Si-Tex and Silva Sweden AB, and marine engine controls for both Mathers and Twin Disc Electronics.

ComNav has been in expansion mode over the past five years, according to its president, Shafiq Gulamani. "We have acquired three companies to improve our product and geographic reach," he said. "We have diversified our product line-up and our distribution has moved into 110 countries to expand our reach."

Gulamani says that ComNav is the second-largest autopilot manufacturer in the recreational marine industry. Its sales grew 39 per cent in 2005 compared to the previous year. Gulamani expects sales to increase another 22 per cent this year.

Competitor AutoNav is also in serious growth mode, with 2005 sales that were 50 per cent higher than 2004. Paul Wagner, president of AutoNav, expects his company to double sales this year.

AutoNav designs and manufactures manual hydraulic and electrohydraulic steering systems, electronic controls and monitoring systems, as well as a range of autopilots for vessels from 5.5m-304.8m (18ft-1,000ft)-plus in length. AutoNav recently launched the C-3000 series of daylight- and sunlight-readable displays that are saltwater-proof.

Wagner says that the high Canadian dollar has forced his company to be more competitive and lower prices.

The Canadian dollar seems to have forced most Canadian manufacturers to become more efficient, according to Neal Prescott, president of Novabraid, a Canadian rope manufacturer with satellite offices in the US. "I think the dollar is really highlighting the inefficiencies of Canadian manufacturers compared to their US counterparts," said Prescott, hastening to add that the inefficiencies include hefty taxes and government regulations that Canadian manufacturers have to follow. Prescott admits that his company is "lucky" since

its sales are roughly divided between the US and Canada, and Novabraid "doesn't have to move a dollar across the border."

But despite the loss of margins the Canadian dollar is causing manufacturers, Prescott believes there are increased opportunities in Europe. "Our dollar is so attractive against the Euro, that Europeans are crazy not to be buying our products," said Prescott. "The quality is on the same level but our prices are better. It makes sense for them to buy Canadian."

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In Focus: Countering the threat of Asian imports

IBI takes a closer look at two Canadian PFD manufacturers remaining buoyant despite fierce competition from Asia.

In the face of an ever-increasing tide of cheap Asian imports, two PFD makers have managed to create business models that allow their products to be manufactured in Canada, and exported around the world. The companies are about as different as they could be, but both have embraced quality as the way forward in a lifejacket market dominated by commodity thinking.

Salus Marine of Kitchener, Ontario, was started six years ago by Steve Wagner, who saw an opportunity at the high end of the sales spectrum. "There were plenty of people addressing the lower end with volume, but nobody was going after that other market," said Wagner, who estimates Canada's PFD market amounts to 1.5 million lifejackets per year.

High-end chandleries and marinas were Wagner's target clients, and he is currently selling to about 250 of them, wedged between other high-end brands like Helly-Hansen, Mustang and Rush. "We've stayed out of the big-box stores like Canadian Tire or Wal-Mart," said Wagner, noting that Salus has to keep a high-end profile in order to justify pricing.

Competing against larger, better-financed players has forced Wagner to be more creative with product offerings. It offers Nimbus children's vests that are tailor-made to kid's shapes rather than the boxy look of orange lifejackets, and Darwin Expedition vests for serious kayakers. "We cater to the social pressures of being safe, looking cool and being comfortable," said Wagner. "There's a big movement within the Canadian boating industry for promoting PFD wear. We are trying to capitalise on that."

Salus recently won the Canadian Safe Boating Association Award, which put it on the map as a serious player. But even with awards and a growing sales network, Wagner feels his competitors at his doorstep. "It keeps us on our toes," he said. "One of our big challenges is having to stay current with designs. We want to make the next one that much better and discernibly different."

The next step forward is exporting to the US. "We just went through the approval process and have a handful of

"Salus Marine and Mustang have embraced quality as the way forward in a lifejacket market dominated by commodity thinking."



Quality control and design are what drive Mustang.

orders," said Wagner. Will Salus survive? It is early days yet, but Wagner has a feel for the North American PFD market, a viable product line and an entrepreneurial spirit that could motivate him past challenges like raw material costs and exchange rates.

BC-based Mustang Survival sits at the other end of the corporate spectrum — a company that has been in business since 1967, with the Sea Horse logo and a mission statement that reads "We Save Lives for a Living." Its inflatable flotation device products are viewed by many as the *crème de la crème* of life-saving devices in recreational marine, professional and military markets.

"We make serious products for serious people," said Scott Winton, Mustang's

director of business development. "That sums up the product strategy, and explains why we don't source from China."

Winton says that Mustang invests "significant" R&D dollars and in-house engineering resources into developing new products for clients like NASA, Navy SEALS, US Coast Guard and many other military branches around the world. The advanced engineering of the mission-specific products filters across to its recreational marine line.

Winton says the North American market is Mustang's largest, and it has recently tapped into the bass-boat market by partnering with Ray Scott, founder of the BASS fishermen's association and a major deity in that world. "There are 750,000 bass fishermen in the US, and BASS has now required PFDs to be worn in their tournaments," said Winton. "It's been a really good programme for us."

A diversification strategy keeps Mustang sales steady. When the boating market, which accounts for about half of its business, is flat, the military or professional market might be strong.

But behind the sales talk one gets the sense of a more definitive mission. "We have strict guidelines for quality control and design," said Winton. "That's really the driving force behind the company and what motivates us. That's why we stay on the leading edge of design — to save lives."

That need for quality control is why Mustang will continue to manufacture its products in house in Canada and at its US facility in West Virginia. "Once you take manufacturing out of your sight, you lose due diligence over your products," said Winton. "That's why we will never take our products offshore."

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Company focus:

A-Z of Canadian companies in January/February 2006.

Campion Marine

- New R&D facility
- 2005 sales up 15 per cent
- Projected sales for 2006 up 18 per cent

Campion is the largest-volume fibreglass boat manufacturer in BC, and perhaps Canada, though Doral also contends that title. The Kelowna manufacturer builds 37 models from 5m-14m (16ft-30ft) across its Allante, Chase and Explorer lines. General manager Brock Elliott says that the company generates about half of its sales in Canada, 20-25 per cent in the US, and the rest around the world. In total, Campion exports to 32 countries.

Like other Canadian manufacturers, Elliott says that Campion has had to reduce its pricing in Canada to compete with US imports, and that has bit into sales and margins. But Campion has also sought opportunities in countries like Sweden, where the exchange rate is less oppressive. "We sold 42 boats at boat shows in Gothenburg and Stockholm," he said. "Our expectation is that the distributor there will order 70 boats this year, and 100 boats in the next two to three years."

Elliott also sees opportunities within Canada, particularly Quebec, and has added French-speaking staff to the sales force. He also sees the US market as a "huge opportunity" for new distribution, and says new models like the Explorer Sport Utility 552I and the rest of the Explorer series are selling well in markets like Florida.

Despite the exchange rate challenges, Campion opened a new R&D facility on its five-acre campus last August. It employs nearly 200 workers, from design to manufacturing. "We have learned to be very efficient by implementing lean manufacturing processes," said Elliott. "We also use high-tech Unigraphics 3D modelling systems, the same systems used by GM and Ford in their own new product development. We launch two or three new models every year."

Doral International

- New production facility in Midland
- Looking to incorporate lean manufacturing

Set up in 1972 in the historic town of Grand Mère, Quebec, Doral International now builds boats and yachts from



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5m-14m (17ft-45ft) with 400 employees at both its original Grand Mère site and in Midland, Ontario.

Denis Jutras, general manager and vice president who is back for his second tour of duty at Doral, showed off the new 265 Elite sportsboat to *IBI* at the Miami show where it was exhibited for the first time. "We are introducing many changes in our designs, and plan to launch new models in our Elite sportboat series this year," he said. "We will also have a 40ft cruiser called the *Mediterra*. We have an arm-full of new projects going forward."

The builder started production in January at the new sportboat facility in Midland, having relocated south from Owen Sound. Its plant in Grand Mère, Quebec continues to build its cruiser and yacht line. Jutras says that the higher Canadian dollar has forced the company to look at its internal operations. "We enjoyed so many years of the dollar being low that now we have to change the way

we do business," he said. "We still tend to operate as two different companies but that will change." He said that Doral has consolidated departments like service and warranty under one umbrella, and it will incorporate lean manufacturing to improve production efficiencies.

The new facility, he said, will also allow for greater efficiency because it is located near the corporate headquarters in Midland, and has access to a marina owned by Doral chairman Erwin Zecha, who bought the company in 1996 when the previous owners declared bankruptcy.

The former 350,000ft² Mitsubishi plant was retooled as a boatbuilding facility with high-tech air filtration system, specialised production bays and new production lines. Zecha told the Midland Free Press that Doral is using about 90,000ft² of space, and 90 workers are building two-three sportboats each day.

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Eventually, 120 will be employed in the facility. Production will continue to ramp up at the Midland facility, with a target of 400-500 boats annually.

Harbercraft

- Increased R&D spend
- Looking to increase distribution

Based in Vernon, BC, Harbercraft is a sizable manufacturer that its smaller competitors see as the boatbuilder to beat. The company has been a high-volume builder of aluminium boats since 1959. But in 1996, four years after CEO Byron Bolton acquired it, Harbercraft changed its production processes to a more tech-savvy one using "Pre-Flex" panels. "We spend a lot of money on new technology," said Ken MacLeod, Harbercraft's vice president of marketing. A CNC plasma machine cuts out detailed shapes, while the CNC press brake forms hull sides and bottoms with cookie-cutter precision. The result, says MacLeod, is a tough, virtually seamless aluminium boat.

The builder makes three different-use lines — Lake Fishing, River Jet and Ocean Kingfisher. The last of the three is where Harbercraft is seeing greatest sales growth, in BC and all the way down the US west coast to California. MacLeod says that while the builder has a dealer base throughout Canada, he wants to increase distribution in Ontario. "We want to bring that province to full potential, and then move into the Midwest US," he said. "We're also taking a good look at Quebec and the Maritimes."

Harbercraft has been spending substantial R&D dollars on its Ocean Kingfisher, notes MacLeod, as it continues to roll out new models.

Lund Canada

- Cost savings through Brunswick
- Consistent growth

Howard Lund set up the company in 1948, and with Brunswick as Lund Canada's new parent company it now employs a workforce of more than 200 over a manufacturing space of 8,361m² (90,000ft²) in Steinbach, Manitoba.

Despite having to adjust wholesale pricing to compete with US imports, Lund Canada president Andrew Klopak says that his division has seen "consistent growth" in the last several years. Like Dubois, Klopak says cost savings through Brunswick Boat Group's (BBG) lean manufacturing has become a way of life



Lund's seen good growth in Canada. This is its 1700.

for his Manitoba-based facility, which produces boats from 3.7m-6m (12ft-20ft), many of them bound for the US. (The Lund facility in Minnesota builds other models that get imported into Canada.)

BBG president Andrew Graves says that Brunswick separates itself from other US manufacturers because it maintains a significant manufacturing footprint in Canada, with two long-established brands (Princecraft and Lund). Lund Canada has also become HarrisKayot's sales arm in Canada, after Brunswick acquired the Indiana pontoon boatbuilder last October. "We've had some excellent successes with the consolidation of the sales departments," notes Graves.

Misty River/ Odyssey Marine

- Fresh look at manufacturing
- Aggressive contingency plan

In March 2004 Misty River Marine and Odyssey Marine were merged and re-branded as InterNautic. Located in Winnipeg, MB, Internautic now manufactures 4m-6m (12ft-20ft) aluminium boats with a workforce of 55 across 4,831m² (52,000ft²).

Misty River competes with Lund, and its new president, Eric LaFlamme, says a fresh look at manufacturing should help drive sales while increasing its dealer network. "We intend to bring platform building to the marine industry by designing 10 different options on the same hull platform at a minimal cost," said LaFlamme. "That will allow us to serve specific regions of Canada and the US, rather than being peanut-buttered across the country."

LaFlamme's parent company, Arow Global, purchased the Misty River name several years ago and has consolidated it under the Internautic Marine Group umbrella. Since then, LaFlamme has been attempting to reinvent the Misty River brand. "We essentially took a utility boat brand and are now building it better than any other manufacturer," said LaFlamme. "We are using precise automotive

Boatbuilders at a glance

McQueen's Yachts

Location: Richmond, British Columbia
Manufactures: 65ft-125ft custom yachts
Workforce size: 15-50
Manufacturing space: 12,000ft²
2005 sales vs 2004: Down 25 per cent
Projected sales for 2006: Down 50 per cent
Challenges: Value of Canadian dollar to US dollar, raw material costs

Monaro Marine

Location: Richmond, British Columbia
Manufactures: 21ft-32ft fish/cruising powerboats
Workforce size: 14
Manufacturing space: 11,000ft²
2005 sales vs 2004: Up 10 per cent
Projected sales for 2006: Up 10 per cent
Challenges: Value of Canadian dollar to US dollar, raw material costs

Queenship Marine Industries

Location: Maple Ridge, British Columbia
Manufactures: 70ft-100ft motoryachts
Manufacturing space: 92,000ft²
Challenges: Value of Canadian dollar to US dollar, skilled labour shortage, Asia

Rayburn Custom Yachts

Location: Mission, British Columbia
Manufactures: 80ft-100ft motoryachts
Workforce: 40-50
Manufacturing space: 22,000ft²
2005 sales vs 2004: Up 26 per cent
Projected Sales for 2006: Up 20 per cent
Challenges: Value of Canadian dollar to US dollar, raw material costs and finding skilled labour

Richmond Yachts

Location: Richmond, British Columbia
Manufactures: 125ft-160ft superyachts
Workforce size: 100
Manufacturing space: 70,000ft²
2005 sales vs 2004: Up 100 per cent
Projected sales for 2006: Up 100 per cent
Challenges: Value of Canadian dollar to US dollar, raw material costs, finding skilled labour

Svfara Marine

Location: Calgary, Alberta; Kelowna, BC
Manufactures: 20ft-23ft ski boats
Workforce size: 35
Manufacturing space: 40,000ft²
Sales growth: 2005: 137 per cent increase in sales over previous two years
Projected sales for 2006: Up 25 per cent
Challenges: Value of Canadian dollar. Raising equity to support rapid expansion.
Note: *IBI* will be taking a closer look at Svfara Marine in our June/July issue.





Equipment firms at a glance

AutoNav

Manufactures: Steering Systems; Dynamic Positioning Systems; Automation Systems; Marine PCs and Displays

Manufacturing space: 8,000ft²

Workforce size: 25 total

2005 sales vs 2004: up 50 per cent

Projected sales for 2006: up 100 per cent

Challenges: High value of Canadian dollar to US dollar. Need for increased productivity and more cost-effective designs

Canada Metal (Pacific)

Location: Delta, British Columbia

Manufactures: Martyr Anodes, Octopus Autopilot Pumps, and Intellisteer Remote Steering System

Workforce size: 120 at Vancouver, Canada operation and 55 at Ningbo, China operation

Manufacturing space: 4,000m² Vancouver and 3,500m² Ningbo

2005 sales vs 2004: US\$19 million for 2005, US\$20 million for 2004

Projected sales for 2006: US\$21 million

Challenges: Currency fluctuation, volatile metal markets, and inexperienced competitors

ComNav Marine

Location: Richmond, British Columbia

Manufactures: Marine electronics, autopilots, instrumentation, GPS, Compass and other navigation products

Workforce size: 40

Manufacturing space: 20,000ft² in house plus external facilities

2005 sales vs 2004: Up 39 per cent

Projected sales for 2006: Up 22 per cent

Challenges: Intelligent integrated navigation for identifiable needs of the marketplace

Kobelt

Location: Vancouver, British Columbia

Manufactures: Brakes, steering, full line of electronic engine controls

Workforce size: 55

Manufacturing space: 52,000ft²

2005 sales vs 2004: Up 25 per cent

Projected sales for 2006: Up 18 per cent

Challenges: Value of Canadian dollar to US dollar, raw material costs

Northport Systems

(d.b.a. Fugawi Software)

Location: Toronto, Ontario

Manufactures: PC and PDA navigation software

Workforce size: 10

Manufacturing space: n/a

2005 sales vs 2004: Marine sales up 25 per cent

Projected sales for 2006: Up 20 per cent

Challenges: High Canadian dollar, decreasing price point for aftermarket electronics



Gozzard sales are on the up following a dip in the US.

tolerances and lean manufacturing to build the Misty River line. It offers three times the quality at the same price as our competitors."

Misty River is also developing innovative designs, including the Misty River Talon 1792 and Alloy Arrowhead as well as a boat it will unveil next summer.

That master plan includes the incorporation of new models and new dealers into its distribution network. LaFlamme notes that about half of his previous 111-strong dealer network left when the company stopped manufacturing its fibreglass Silverline and Invader boats. He admits that building up a new dealer base will not be an easy task. "We want our dealers to trust us and not force truckloads of boats down their throats," he said. "We believe the best way to do this is through consumer demand, so we are creating demand at the user level."

Neptunus Yachts

- Strong order book but lower margins
- New 80-footer planned

Neptunus Yachts of St Catherine's, Ontario has also seen an influx of Canadian buyers largely due to the exchange rate. "Our products are priced in US dollars and seemed less expensive to them. Last year, we sold 40 per cent of our production slots to Canadians," said Kenneth Nichols, Neptunus president. "Normally, it's about 20 per cent."

Despite lower margins, Nichols says that the US order book for his motoryachts, which range in size from 15m-21m (50ft-70ft), is strong. "The volume of boats we're building is up," he said. "We're still very competitive against many of the European brands, so we see growth

ahead. Margins are getting back to where they were before."

Nichols says that the motoryacht market in the 19m-27m (60ft-90ft) range is healthy, and that his company has an advantage over many competitors, including US brands like Lazarra, Sea Ray, and Carver Marquis, because it offers flexibility on interiors. "We customise more than anyone else in our size range."

Nichols purchased the brand and moulds from Neptunus of The Netherlands in 2002, and has expanded its Ft Lauderdale offices to include a service facility. In the past three years, production has doubled at its Ontario facility. "With the service facility and office in Florida, and production in Canada, customers know we are here to stay," he said.

Since purchasing the company, Nichols has also introduced a new 56 Flybridge and 62 Motoryacht. Neptunus upgraded its 66 and 70 by adding an optional skybridge, notes Nichols. "We're planning to add an 82 or 85-footer to the line to meet the requests of our customers," he said. "Many are looking to trade up and stay in the brand."

North Castle Marine/Gozzard Yachts

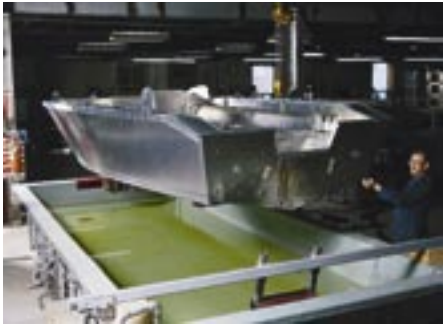
- 2005 sales flat, five per cent rise for 2006
- Success at US shows but cautious outlook
- US sales hit by strong Canadian dollar

North Castle Marine/Gozzard Yachts in Goderich, Ontario has also been struggling with the value of the Canadian dollar, and initially lost US customers because it was forced to raise prices on its high-end sailboats and motoryachts. But it has also brought in a higher percentage of Canadian buyers for its high-end semi-custom sailboats and motoryachts. "US volumes are getting back where they were two years ago," said Jan Gozzard. "We're building about the same rate as we did before. But not knowing how high the dollar might go, we don't want to promise contracts too far down the road."

Despite the cautious outlook, Gozzard Yachts has had good success at this year's US sailboat shows in Annapolis, Newport and Miami. Gozzard says that her brand is seen on par with a Morris or Shannon, a quality-built boat where clients are often involved with the interior design. The family-run yard, which started in 1982, has a workforce of 30 and 24,000ft² of manufacturing space.

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Lean manufacturing is helping Princecraft expand.

Princecraft

- Growth across Canada
- Fast-growing deck boat market
- 40 per cent production exported

Princecraft, a Brunswick company that is one of Canada's largest aluminium boatbuilders for the freshwater market, says that it has mitigated the impact of the strong Canadian dollar. One method has been through cost-savings that have accrued for its facilities through lean manufacturing and global sourcing initiatives introduced by Brunswick after it acquired the brand after the OMC bankruptcy in 2000.

"Under Brunswick, we have grown tremendously in the last five years," said Marcel Dubois, Princecraft's longtime president. "Our Quebec sales have increased by about 50 per cent, and we have enjoyed growth across Canada."

Dubois estimates that about 40 per cent of his company's production is exported to the US. Although he didn't have access to market statistics, Dubois says that he believes the aluminium fishing boat market is relatively flat, and that sales of pontoon boats are "up slightly." But he has seen strong growth in the deckboat market, one of Princecraft's fastest-growing segments.

PDQ Yachts

- Strong growth potential in northern Europe
- 2005 sales up 11 per cent
- 12.5m (41ft) powercat planned for 2006

Two years ago, PDQ decided to make a dramatic sea change in its product offerings. It stopped making its bread-and-butter 10m (32ft) and 11m (36ft) sailboats, the boats it had been building for decades and on which it had built its name, and instead focus on a high-end 13m (44ft) sailing cat as well as the 10.5m (34ft) power cat it had launched five years ago.

"As the dollar went up, we saw inexpensive boats coming from South Africa into the North American market, and our 32 and 36 did not offer any unique value propositions," said Poirier. "We decided at that point to become a new company by heading in two directions. It was a risky decision."

Set up in 1987 by an MIT graduate and a father-and-son team, PDQ Yachts today builds a 13m (44ft) sailing catamaran, and a 10m (34ft) and 12.5m (41ft) power catamaran. Now employing 120 people, the company has a production space of 5,574m² (60,000ft²) in Whitby, Ontario.

The reinvention of PDQ, says Poirier, has yielded tangible financial rewards. The C\$750,000 Antares 44I is a custom-built yacht, with production sold out through 2007. The number of power cats PDQ has produced will approach 100 boats over five years, rivaling its French competitors. PDQ will launch a more elaborate cruising 12.5m (41ft) power catamaran in the autumn. Both the 44I and the power cats yield higher margins than the old 32 and 36, and are reaching new markets. "We've managed to overcome loss of sales by expanding our reach," said Poirier.

Poirier believes that northern Europe represents the strongest opportunities for its power cats, both because of consumer preference for that type of boat and a more favourable exchange rate.

Silver Streak Boats

- Projected sales for 2006: Up 25 per cent
- Most significant challenges: Value of Canadian dollar to US dollar, raw material costs

Located in a 50,000ft² facility in Sooke, BC, Silver Streak Boats, which employs 20, was started by Andy Barry, 20 years ago. Barry saw an opportunity for building quality fishing boats for the high end of the market. "They're up there as far as dollar value goes," said Barry. "But there is no mass production involved, and we finish them as well as anyone."

Silver Streak models range from 3.7m-10m (12ft-32ft). It will also soon launch a new 7.6m (25ft) model that could be a turning point for the company.

"It was the first Silver Streak designed in 3D space by CAD, so it is more precisely shaped for CNC cutting and bending rather than cutting by hand," said Ryan Hunter, president of Hunter Yacht Design. "The real advantages are the labour savings, the accuracy of the components, and the ability to outsource the manufacturing process." That could be a milestone for a company that is used to cutting its boats by hand.

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