

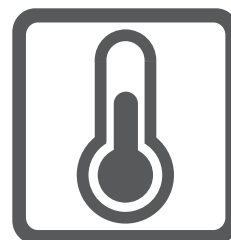


# The future of productivity

## Smart exporting for Canadian companies

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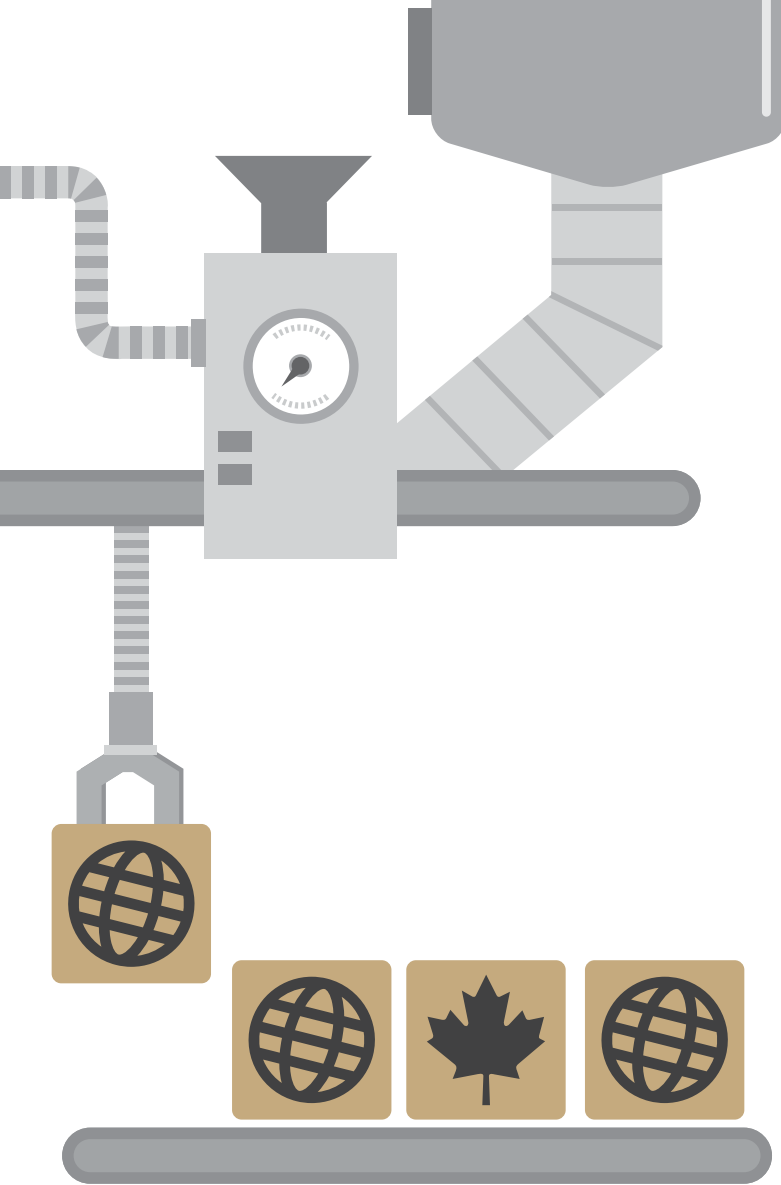




# Executive summary

Research and previous reports by Deloitte have established a clear, positive link between international trade and improved productivity. However, in recent years Canadian export growth has stagnated relative to the world. To boost productivity and improve our competitiveness, we must increase Canada's exports.

Much of the conversation around trade focuses on government's role – but ultimately, Canadian companies must take action themselves. In an increasingly connected global marketplace, it is in Canadian business leaders' best interest to move boldly and decisively into international markets.



### Exporting's compelling benefits: improved performance, lower risk

The benefits of exporting are compelling. Exposure to new growth opportunities, global best practices and diverse competition challenges exporters to excel. Exporters grow faster, are more productive and achieve better market performance than their domestic counterparts.

More surprising, perhaps – especially to risk-averse Canadians – is that exporting can actually reduce a company's risk of failure. Geographic diversification balances risk, calms volatility and improves a company's ability to withstand the ups and downs of business cycles. Although exporting can open up new risks and challenges, companies that do business internationally stay in business longer.

### Business leaders need to embrace "Smart Exporting"

Rather than avoid exporting, Canadian business leaders need to embrace it – in an informed way. To help guide prospective exporters, we interviewed 46 experienced Canadian exporters and distilled their insights into a three-stage journey toward "Smart Exporting."

#### Stage 1: Think like an exporter

- ✦ **Reflect:** Fledgling exporters should start by adopting a global mindset. To compete on a larger scale, companies often need to redefine and narrow their value proposition to focus on the single strongest feature of their business – whether that's a tangible product or an intangible quality.
- ✦ **Explore:** Having the right information is crucial. Decision makers should evaluate their beliefs and assumptions through research and conversations with other exporters. For example, the U.S. market is often the first target of new exporters because of perceived similarities – yet the U.S. market is very mature, highly competitive and not nearly as similar to Canada as some think.

#### Stage 2: Become an exporter

- ✦ **Promote:** Most markets place a high value on relationships, which can only be developed over time. Companies should build trust and credibility by consistently attending trade shows and by using the power of their networks.
- ✦ **Localize:** Working to understand and adapt to the culture and business practices of a chosen market is a very valuable investment. The best exporters use what they learn to transform themselves into "local players" – tailoring their offerings to suit local requirements or tastes and establishing local representation that can operate in the language and culture of the customer.
- ✦ **Protect:** Exporting will always present risks. Starting small, conducting due diligence and carefully vetting business partners can cut the risk of unpleasant surprises down the road.

#### Stage 3: Win as an exporter

- ✦ **Re-invent:** Export winners continually transform their business, investing in new technologies and disseminating new knowledge across the organization.
- ✦ **Collaborate:** Sustained long-term growth comes from working with global partners to innovate, pilot new technologies and create new opportunities domestically and globally.

### Government should do more to promote the visibility of export support programs

Canada's government has made trade a top priority, and sponsors many valuable export support programs. Yet many of these programs are invisible to organizations that need them. Government organizations should do more to promote existing programs and make them more accessible to exporters.

Government should also take steps to encourage more inbound international tourism: every 1% increase in international arrivals generates \$817 million in increased exports for the two following years.

Enabling Canadian companies to succeed globally will be crucial for achieving a prosperous future of Canada.



# Are we missing the export opportunity?

International trade is essential to a thriving economy. Trade – especially exports – enables Canada’s economy to grow despite the constraints of a small population and low domestic demand growth. Research by Deloitte and others has also shown a clear link between increased international trade and improved national and industry-level productivity. Opening the economy to foreign demand opportunities, global best practices and new technologies improves overall economic performance.

However, Canadian export activity is slowing down. Global exports increased at an average annual rate of 9.1% between 2000 and 2012. Over that same period, Canadian export growth only averaged 4.2% annually (Figure 1).<sup>1</sup> More alarming is the fact that Canadian export intensity (exports measured as a percentage of GDP) dropped from 46% in 2000 to 30% in 2012.<sup>2</sup>

Canada’s slowing export growth can be traced to several factors, including the lingering impact of the 2008 recession and the strong Canadian dollar. As well, many Canadian exporters remain underexposed to high-growth emerging markets. While

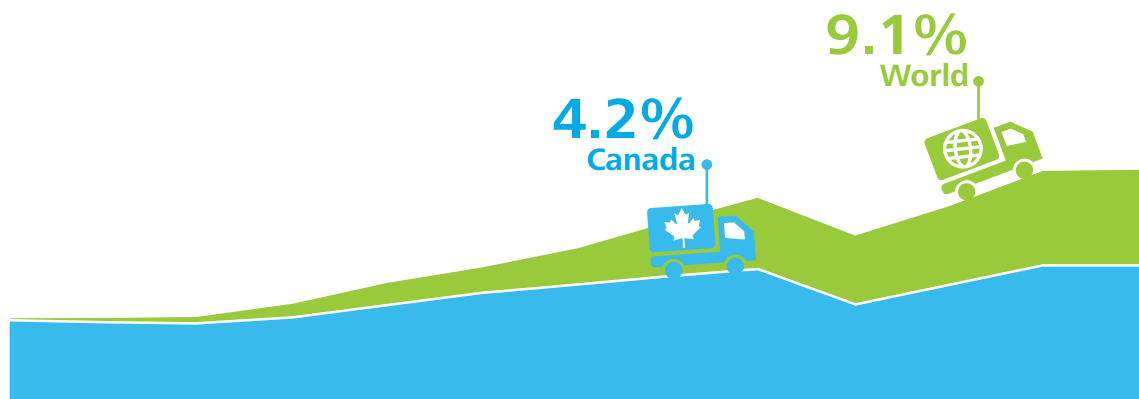
emerging economies currently generate 80% of global real GDP growth and will continue to be the primary driver of future growth, less than 12% of Canada’s exports are directed to these economies.<sup>3,4</sup> By contrast, 76% of Canadian exports still go to the United States,<sup>5</sup> where demand growth has been soft and competition is stiff. What Canada needs isn’t just more exports – it needs more strategically diversified exports.

We’re seeing government trade policy move in this direction. The Trans-Pacific Partnership and other free-trade agreements with emerging markets, along with a weaker Canadian dollar, set the stage for the growth and diversification of Canadian exports. Canada has the opportunity to boost national productivity and capitalize on its advantages in key sectors – but it is up to individual organizations to seize the opportunity.

Currently, only 3.6% of Canadian companies export.<sup>6</sup> The benefits to the country are clear – but what’s in it for businesses? Companies need clear and compelling reasons to pursue global opportunities. Engaging business leaders in the export imperative will be crucial for addressing this national challenge.

**FIGURE 1**

Export growth for world vs. Canada  
2000–2012 CAGR



Source: World Bank

# Why export?

The good news is that there are two compelling reasons for companies to export: it improves business performance and it decreases overall risk, ultimately improving firm value.

Exporting opens new markets, boosts top-line growth and improves performance and enterprise value. It has enabled struggling companies to turn their businesses around – and helped others build on domestic success to become global players.

Exporting can also – and perhaps more surprisingly – help companies reduce their overall business risk and become more resilient. Expanding into new markets and landing new customers can help companies reduce the impact of demand volatility and ride out business headwinds.

## 1. Exporting improves business performance

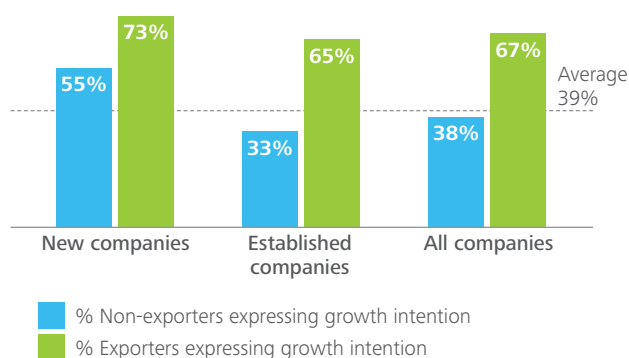
### Improved growth

Canadian businesses often take off like a rocket – at first. Deloitte's 2012 report on productivity found that Canada boasts a higher proportion of high-growth start-ups than our OECD peers. Yet our research also found that as these companies age, they can no longer sustain that growth.<sup>7</sup>

Exporting can help established companies avoid this slump and maintain a high growth rate. In fact, exporters tend to be more growth oriented – and experience greater growth. Canadian small and medium enterprises (SMEs) that export are much more likely to express growth intentions than those that don't (Figure 2).<sup>8</sup> A 2010 survey of U.S. SMEs found that exporters achieved greater top-line revenue growth than non-exporters, especially in manufacturing (Figure 3).<sup>9</sup> Despite access to a massive domestic market, U.S. companies export to grow, which makes a compelling case for Canadian companies to do the same.

FIGURE 2

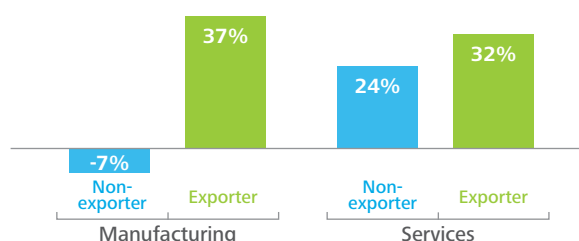
Growth attitudes of Canadian SMEs (2007)



Source: Industry Canada

FIGURE 3

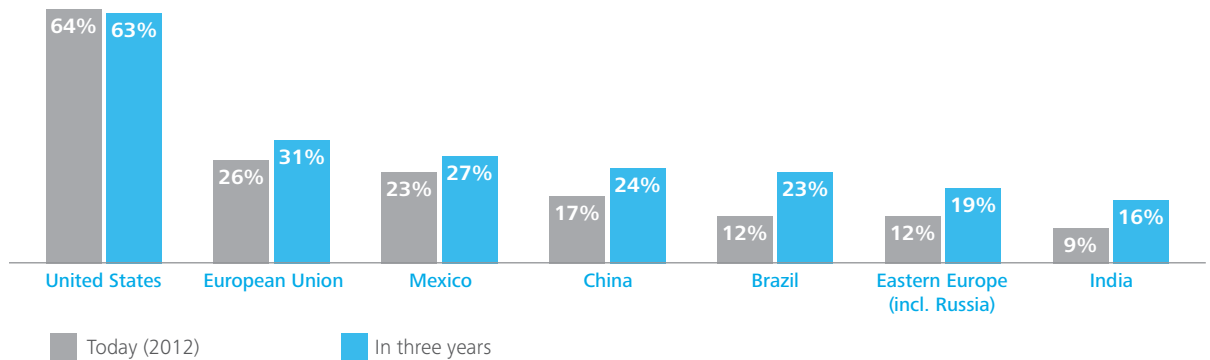
Four-year revenue growth for U.S. SMEs (2009)



Source: U.S. International Trade Commission

**FIGURE 4**

Where is your customer base today and where do you expect it to be in three years?



Source: Canadian Manufacturers and Exporters

More Canadian business leaders are recognizing foreign markets as a source for tomorrow's customers. As of 2012, Canadian companies expected that over the next three years a growing share of their future customers would come from Europe, Mexico and the BRIC countries (Figure 4).<sup>10</sup>

#### Improved productivity

Exporting companies are also more productive. A 2012 study showed that the workforce productivity of Canadian manufacturing exporters outperformed that of non-exporters by over 30% (Figure 5).<sup>11</sup> In the United States, small and medium-sized exporters reported 70% higher revenue per employee across manufacturers – and over 100% higher across services organizations (Figure 6).<sup>12</sup> Three factors drive this superior performance: specialization, scale and technology.

Companies that export to a large global market are able to specialize in what they do best. In fact, almost 40% of Canadian exporters export only one product.<sup>13</sup> They also achieve efficiencies through economies of scale and access to productivity-enhancing technologies, both of which are often out of reach for domestic players. Entering international markets makes companies 37% more likely to adopt innovative technologies from around the world,<sup>14</sup> which are key drivers of productivity and business success.

“It is really dangerous not to export, because you depend on only one market and one economy.”

Robert Bouchard, President, Rotobec

**FIGURE 5**

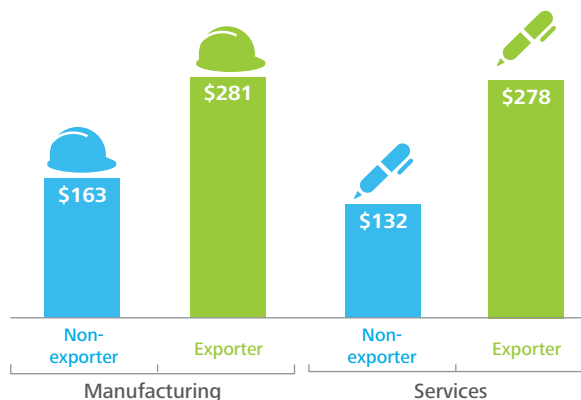
Canadian manufacturers' relative productivity



Source: Statistics Canada

**FIGURE 6**

U.S. SMEs: Revenue per employee (2009, U.S. \$000s)



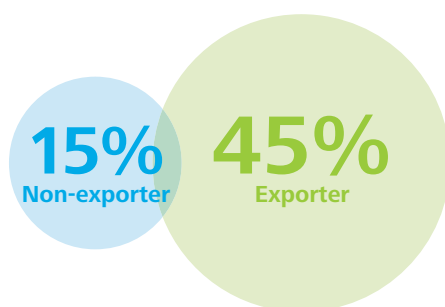
Source: U.S. International Trade Commission

### Improved market value

In terms of market returns, exporters simply outperform. Expanding the revenue base generates stronger cash flows, creating value and inspiring investor confidence. Research on more than 4,000 global IPOs indicates that compared to domestic businesses, exporters are less underpriced at the time of IPO, enjoy stronger operating performance and achieve three times greater average three-year cumulative returns (Figure 7).<sup>15</sup>

**FIGURE 7**

Average three-year cumulative returns post-IPO (1985-2010)



Source: Midwest Finance Association

## 2. Exporting lowers overall business risk

Companies often avoid exporting, believing the risks outweigh the opportunities. However, it's far too easy to overestimate the risks of venturing abroad – and to underestimate the risks of remaining domestic. More and more, Canadian companies find themselves facing foreign competition whether they “stay put” or not. As of 2010, 67% of Canadian manufacturers were already facing domestic competition from multinational competitors.<sup>16</sup> Business leaders who think staying domestic offers safety in a competitive global marketplace should reframe their thinking. Exporting may offer the real solution to reducing risk.

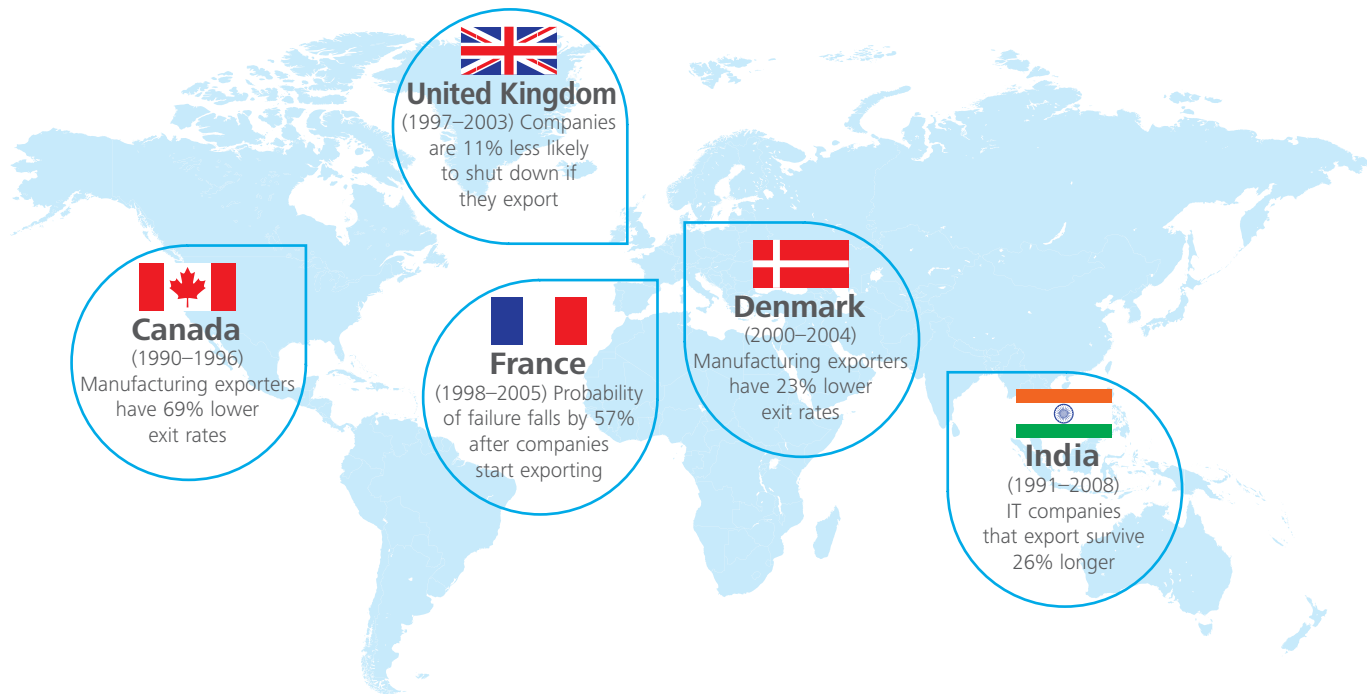
### Lower business volatility

While entering new markets gives rise to new and unfamiliar risks, exporting can actually help companies reduce risk by achieving a more balanced portfolio. Overexposure to a single marketplace – even one as stable as Canada – creates concentration risk. Even when foreign markets are more volatile than the domestic market, overall business volatility can be reduced when companies are exposed to different business cycles. U.K. manufacturing data suggests that through risk balancing, exporters can achieve 20% lower volatility in overall sales compared to non-exporters. The data also indicates that volatile companies are more likely to move into export markets in order to stabilize sales and avoid bankruptcy.<sup>17</sup>



**FIGURE 8**

Survival rates of exporting companies compared to non-exporters



Sources: Statistics Canada, UKTI, Economica, University of Lüneburg, Monash University

### Lower risk of market failure

Risk diversification equips exporters to withstand business cycles across geographies. The performance advantages that make exporters more competitive globally also make them more resilient to economic shocks that eliminate weaker players. Studies from numerous countries have clearly shown that exporting increases both business survival and longevity (Figure 8).<sup>18, 19, 20, 21, 22</sup> In addition, a review of long-term IPO performance shows that companies that exported pre-IPO were 20%–40% less likely to delist or exit the market. In fact, the longer a company exported before its IPO, the better its chances of survival (Figure 9).<sup>23</sup>

Exporting helps companies stay relevant and outlive non-exporters. In part, this is because they can extend their products' lifespans by introducing them into new markets as older markets mature.

**FIGURE 9**

Rate of market exit across IPO companies (1985-2010)



Source: Midwest Finance Association

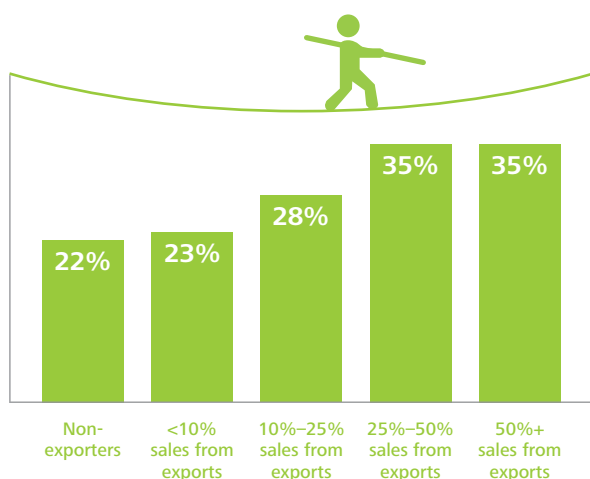
### Lower risk aversion

As prior Deloitte reports have noted, Canadian companies are much more risk-averse than their U.S. peers.<sup>24</sup> Interestingly, Canadian exporters tend to overcome this risk aversion to a large degree, and they are much more willing to risk losses in order to pursue large growth opportunities (Figure 10).<sup>25</sup>

Exporting helps change the risk attitudes of Canadian companies. Because they are less sensitive to market volatility and less daunted by the possibility of business failure, they commit more resources to growth and invest more in innovation through research and development. A Canadian survey of small and medium-sized companies indicated that exporters had twice the rate of investment in R&D programs compared to non-exporters (Figure 11).<sup>26</sup> These companies understand that business will always entail risk and are realistic in determining those risks. They accept that a domestic status quo may not be the safest option and proactively reshape their own futures for the health and longevity of their businesses.

**FIGURE 10**

Percentage of companies with high risk appetite by export intensity



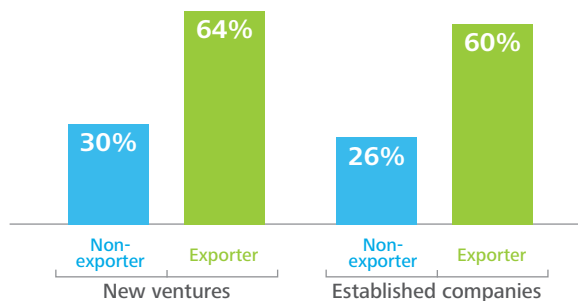
Companies with high risk appetite characterized their risk tolerance as at least “willing to risk significant one-time losses in order to pursue large growth opportunities”

Source: Deloitte research

Canadian companies need to understand and embrace the compelling benefits of the export opportunity. Exporting will not only improve business performance but also decrease business risk, helping companies focus on the growth and innovation that will build a strong future. Ultimately, exporting creates value – for business owners, investors and other stakeholders. More Canadian business leaders should make the decision to expand into new export markets for their own benefit. The more that Canadian companies choose this path, the more Canada’s economy will benefit overall.

**FIGURE 11**

Percentage of companies with R&D programs (Canadian SMEs, 2007)



Source: Industry Canada

# Smart exporting



Despite the business benefits, only 3.6% of Canadian companies currently export.<sup>27</sup> Various barriers are often cited, such as distance, the strong Canadian dollar and unfair trade rules. Yet many Canadian businesses have overcome these barriers to compete and win on the global stage. What's their secret?

We studied some of these successful companies to uncover what they're doing right, learn about the missteps they've made along the way and identify lessons they can offer to prospective exporters. We conducted 46 interviews with key decision makers of Canadian exporters, a majority of which Deloitte has named among Canada's Best Managed Companies.<sup>28</sup>



We've collected these leaders' insights to create a guide for "Smart Exporting" that takes a three-stage view of the export journey and highlights important success factors along the way. Every exporter's journey will vary depending on the company's ambition and circumstances. Our recommendations are drawn from real stories of successes and mistakes – and we believe companies of all sizes and sectors can use these lessons and tactics to better prepare for exporting and improve their chances of success abroad.





# Think like an exporter



Prospective exporters need to begin by adopting a new mindset and thinking globally. They need to expand their vision, seek new perspectives and refocus resources outward to position their companies for success in a competitive global market.

The next step is a thorough assessment of the company's value proposition – the core advantage underpinning the business – and the international demand for that value proposition.



## Reflect ►►►

### Is exporting for me?

#### Determine your value proposition

Foreign customers need a compelling reason to do business with a Canadian firm. Any fledgling exporter needs to determine its value proposition – and then specialize around it. Successful exporters often transform themselves to focus on their single strongest feature. It could be something tangible like an innovative product, or something intangible such as outstanding customer service.

Canadian companies should look globally to understand their competitive position and determine whether they have a compelling product or service. Participation in trade missions can help. Not only can companies gain exposure to foreign standards, they can identify market gaps and weaknesses to exploit.

Companies that compare their performance to global benchmarks are more likely to succeed as exporters. Canadian companies should also benchmark themselves against global competitors in areas such as quality, delivery time, customer service and efficiency – factors that can be used as differentiators. Obtaining international certifications can also help Canadian businesses establish their global credentials in key areas such as quality.

If a firm struggles to identify a compelling value proposition, it may be premature to venture into export markets – for now. Many exporters develop and refine their value proposition over time, finding strengths outside of their perceived key competency.

#### Align resources and capabilities

While prospective exporters should be prepared to invest in new capabilities in order to thrive in new markets, exporting is certainly not limited to large, resource-rich companies. In fact, 89% of Canadian exporters are small businesses.<sup>29</sup> Smart exporters are resourceful and creative, overcoming size and capital constraints. They start by selecting the right people to build their businesses.

Many companies recruit talent to match their target market, such as business development leads with previous global experience and operations staff who understand the relationship between the product and the market. Companies also hire for language skills and mobility, seeking employees who can lead, communicate and operate within the local market's cultural and business practices. For example, the staff at Acadian Seaplants, a producer of seaweed-based specialty products, collectively speaks 11 languages.

Organization-wide commitment is essential – not only to support the investments required, but also to obtain the financing needed to fund the export activity. Banks and creditors value commitment and preparation, and build positive relationships with companies that invest in long-term export strategies, not just short-term transactional business.

## StarTech.com

### StarTech.com uses annual customer symposiums to define its value proposition

StarTech.com manufactures and supplies hard-to-find IT products and parts. To understand and meet customer needs across the world, the company goes to the source and asks customers directly. Since 2007, StarTech.com has held annual customer symposiums in North America and Europe, which help it to continually redefine its “hard-to-find” product niche. StarTech.com also opened a global distribution network based on customer feedback that “a product is not available unless it's available in 24 hours.” These symposiums now inform the company's annual strategies, objectives and products.

“If you can't tell me why someone will buy your service, you should not be expanding into international markets.”

Darlene Duggan, President, Duggan International Group



## Explore ►►

### Do I have all the facts?

Preparation is key to determining export success or failure. Many inexperienced exporters act on oversimplified and ultimately incorrect assumptions about markets, risks and regulatory restrictions, only to see their export efforts fail. One interviewee told us a lack of research cost their company \$1 million in lost revenues. To prepare for exporting, companies need to gather information – and learn from others' experiences.

#### Conduct market assessments

Entering the wrong market can be costly, so companies should base exporting decisions on a thorough assessment of the market environment. In addition to demand size and growth, companies should consider market characteristics including customer sophistication, brand loyalty, competitive aggression and regulatory risks and constraints. National Compressed Air, a producer and servicer of mining equipment, conducts a market scoring analysis to predict the success of its products in new markets. It rates its products on factors including technical advantage, pricing and marketability across each potential target market to develop a cross-matrix score, and pursues the highest-scoring market as its next target.

Fortunately, abundant market information can be found online at little or no cost. One highly valuable source of free information is the Canadian Trade Commissioner Service (TCS), which has staff in over 150 markets worldwide and offers market intelligence and advice to help Canadian businesses succeed abroad.



### New Future Lumber visits competitors abroad for technology and market insights

New Future Lumber is one of Eastern Canada's largest exporters of wood and wood products. With the vision of building a new facility in Canada, Director Paul Sibley visited the plants of a number of European lumber producers who had perfected a technology that Paul wanted to adopt for his new facility. While speaking to factory owners in the United Kingdom, Paul was surprised to learn that the U.K. market for this product had surplus demand, which was largely supplied by expensive European imports. With a relative cost advantage for shipping into the United Kingdom, New Future Lumber made this market the next step in its expansion strategy.

“People say ‘my business is unique,’ but many businesses have the same problems abroad and can work together to solve these problems.”

Kari Yuers, President and CEO, Kryton International Inc.

### Find mentors

No amount of market research can replace learning from the experiences of other exporters and people “on the ground” in local markets. Companies can turn to many people or organizations for exporting knowledge and mentoring. Customers or suppliers already operating in a market can share local insights, facilitate referrals and even serve as anchors during market entry.

Non-competitors can also be useful organizational mentors – in fact, our interviewees said that talking to other exporters was essential. Organizations such as the Canadian Manufacturers and Exporters Association (CME) and the Business Development Bank of Canada (BDC) offer forums and programs to connect new and experienced exporters, such as QG100, a network of CEOs who help each other seize global opportunities by sharing knowledge and export strategies.

Many we interviewed believe it’s vital to travel and experience the target market first-hand before engaging in export development. Meeting locals provides a flavour of the culture, while meeting companies provides insights into business practices and can lead to significant knowledge acquisition. Canadian companies that engage with foreign competitors and industry players during trade missions or travel often learn about new technologies or find partnership opportunities.

“If I had a product I wanted to sell, one of my first phone calls would be to the trade commissioners.

Michael McAdoo, VP Strategy and International Business Development, Bombardier

## Is the U.S.-first strategy for you?

The proximity, market size and perceived familiarity of the U.S. market have made it a default launch pad for many new Canadian exporters. Almost 70% of Canadian exporters start there.<sup>30</sup> However, the U.S.-first strategy can be dangerous for some, and companies considering starting in this market should be choosing it on the basis of an objective market analysis.

The United States isn’t as familiar as many think. Differences in regulatory frameworks, tax systems, product standards and even measurement systems mean that Canadian companies must still localize their export efforts. Furthermore, the United States cannot be treated as a single market. Cultural and regulatory differences across states add significant complexity to localization efforts.

Businesses also sometimes forget that the United States is one of the most mature, competitive and sophisticated markets in the world. While it may be easy to source business leads on entry, it can be difficult to compete and grow over the long term. In contrast, emerging markets are often faster growing and less competitive, due to lower market maturity and lower technological sophistication. As trade barriers come down, Canadians have more options.

Over the last decade, we’ve seen a decline in the percentage of companies that launch their exporting efforts in the United States.<sup>31</sup> This is not limited to the large players. Canada’s small and medium enterprises actually export more of their sales to non-U.S. markets than large companies do – in 2009, 35% of total SME exports went to non-U.S. markets, compared to only 18% of large companies’ exports.<sup>32</sup> This trend suggests that while the United States continues to be an attractive export market, Canadian businesses should evaluate all options and make decisions objectively, not intuitively.



# Become an exporter



Becoming an established exporter takes persistence. The first year of exporting is usually challenging – in part because Canadian companies often make the mistake of trying to do business in new markets the same way they do business in Canada. Instead, companies need to localize their efforts to meet market needs. By preparing thoroughly and building business relationships over time, new exporters will lay the groundwork for sales and success.



## Promote ►►►

### How do I reach customers?

It's unlikely that a customer will do business with a new foreign company on day one. New Canadian exporters should remember they're an unknown quantity in foreign markets; they need to build trust and establish their reputation by demonstrating a long-term commitment and by being available to potential customers.

#### Attend trade shows – consistently

Trade shows allow exporters to improve their visibility and credibility, meet customers and deepen their understanding of a new market. They can help exporters get to know potential partners, distributors and competitors.

To realize the most value from trade shows, exporters need to attend them consistently. Doing so isn't cheap, though, so companies should invest strategically, focusing on those that offer the best opportunities to build relationships and sales. Successful attendees often focus on specific targets, researching them in depth before meeting them at the trade show.



### Magnet Forensics focuses trade show dollars to maximize brand visibility

Magnet Forensics develops forensic software products for data recovery. Company leaders have become highly selective about the conferences and trade shows they attend. After attending 22 conferences in their first year, they eventually focused on only four shows. Narrowing their scope enabled them to invest in sponsorships with impact: they acquired speaking slots, hosted onsite parties to connect with potential customers, and put free trials of their software in registration bags. This approach allows Magnet Forensics to gain PR buzz and maximize engagement with customers.



#### Use anchors

One of the greatest challenges new exporters face is convincing customers of their capabilities when they lack a global track record. However, 28% of Canadian manufacturers already produce goods that are used as inputs for exports, while 23% of them produce goods that are exported as-is by their Canadian customers.<sup>33</sup> Reputable anchor customers can help companies establish global credentials and provide business referrals to their international branches or to customers and suppliers in their network. Hunter Amenities grew from a small business in Burlington, Ontario, to a major supplier of personal-care products to global hotel companies, including the Starwood group. By growing in step with its large customers, Hunter has been able to penetrate over 100 countries.

#### Use creative pull tactics

Canadian companies can be overly modest when it comes to promoting themselves. But standing out among aggressive global competitors requires a bold approach. Creative thinking can be a powerful substitute for marketing spend. Many successful exporters have creatively marketed themselves by being strategic with resources or building demand for their products by targeting their customers' customers. Some achieve this through working collaboratively with their customers' marketing groups to effectively communicate the value of the final product to the end user.

“Be patient and persistent.  
A sale won't happen  
overnight, but it will happen.”

Paul Sibley, Director, New Future Lumber

## Localize ►►►

### How do I engage customers?

The business leaders we spoke with were united in their belief that exporters need to invest in localization by understanding and adapting to the target market's culture and business practices. The best companies internalize those learnings to transform themselves into local players.

#### Localize your offerings

Most successful exporters don't produce a uniform product for all markets. Instead, they listen to their local customers and adapt their products to suit those customers' needs. Highly specialized businesses take this customization to the next level by working with customers to develop product specifications and prototypes.

Exporters should also be sure to meet the technical, safety and regulatory requirements of the local market. A detail as small as adjusting measurements from metric to imperial can make or break a deal. In addition, Canadian companies may need to obtain product approvals and certifications in order to sell credibly in some markets.

#### Localize your representation

Most markets place a high value on relationships, which can only be developed in person. PolyCello, a manufacturer of packaging material, noted a significant growth in its U.S. sales as a result of hiring regional sales people who understand the local customs and culture to work with clients in their areas.

Exporters should determine what kind of local representation is required. Companies serving a small number of large international customers, for instance, may find they don't need much local support – though they may compensate by frequently visiting those customers to build the relationship.

In industries where distribution networks are important, partnering with trusted local distributors can help exporters bridge cultural and communication barriers and get their products to market efficiently. Those companies unable to find a suitable distributor may instead choose to establish their own mobile sales team that understands the culture and language of their customers.

In many cases – and especially in the first years of exporting – companies may feel they need their own physical presence in local markets, staffed with both Canadians and locals. Local offices don't need to be a permanent commitment, however. Locations can be scaled up or down in response to market need, and closed when they've outlived their usefulness.

Finally, every firm needs to have web presence. And those who also provide local language support and local contact numbers will be two steps closer to winning customers over in those markets.



### Forensic Technology conducts research partnerships with new foreign customers

Forensic Technology develops technology solutions to help safety agencies around the world identify ballistics and firearms. When entering new markets such as India, Australia and the United Kingdom, the firm conducts research partnership projects with customers to make its Integrated Ballistics Identification System more relevant to them. The research involves testing new bullets and cartridge cases specific to each local market and updating the automated ballistics identification system. The initiative is self-funded by Forensic Technology and helps improve the overall system as well as customizing to foreign customers' needs.

“In some of these places we only have one person but there is still a difference between one and none.

Jean-Paul Deveau, President, Acadian Seaplants

## Protect ►►►

### How do I manage risks?

Exporting will always present some risks. Investing in rigorous due diligence is one of the best decisions any prospective exporter can make. Understanding, evaluating and mitigating export risks will help ensure that an opportunity won't jeopardize the company, and will help it deal with challenges that arise.

#### Start small

Exporters sometimes make the mistake of expanding too quickly. Large new contracts can lead to demand shocks and production challenges, and the resulting volatility can damage credibility with partners and creditors. Businesses should carefully manage their growth, stagger their exploration of new markets and slowly scale up their local presence in foreign markets.

#### Create a risk checklist

The global market offers many potential opportunities, and exporters can afford to be selective. Prepared exporters understand their risk tolerance and set reasonable risk thresholds against which they evaluate their options. Many use standard risk checklists and procedures to assess every market entry and business opportunity. Of course, risks change over time, and companies will need to refresh their risk tolerances, thresholds and tools accordingly.

#### Meet all business partners

Today, it's easy to do business with someone without ever meeting them face to face – this can create trust prematurely and lead to unpleasant surprises down the road. It's vital that exporters vet new business partners using a consistent process that includes meeting in person.

When establishing a new business relationship, successful exporters often take time to visit their customers and invite them to their Canadian offices. Many send leaders from their home office to travel with new sales representatives or distributors as another vetting tactic.

An external perspective can help. Export Development Canada (EDC), which provides credit guarantees for foreign buyers, can help companies vet their buyers and provide sensing around country risk. Trade commissioners also maintain lists of reputable businesses in each foreign market.

Finally, exporters should learn who all the players are in the local market – including tax and customs agencies and other regulators. Understanding their customers' customers can also help companies gain better visibility down the value chain.

#### Share the risk

Exporters should look for ways to share the risk with their business partners, such as pricing arrangements, contractual stipulations and joint investments. Supply and pricing strategies can be put in place to manage currency fluctuations. MDS Aero Support Corporation, a supplier of engine test facilities and systems, builds supplier prices and currency adjustments into pricing contracts as a way of sharing risk with the customer.



### Avigilon scales up local presence in planned stages

Avigilon designs and manufactures high-definition surveillance solutions. Founder, President, CEO and Chairman of the Board Alex Fernandes observed that a big mistake that companies make in new markets is investing too much and too early on fixed overhead, resulting in significant financial risk. When Avigilon enters a new market, it scales up its local physical presence based on revenue increments. At first, employees work from their homes, keeping costs low during initial sales growth. Once revenues reach a certain target, the firm takes shared office space on short-term leases. When revenue hits a higher target, the company expands operations and builds its own office space. Avigilon now has a global sales network operating in over 105 countries.







# Win as an exporter



Canadian exporters that transform themselves to serve foreign customers not only gain new growth markets – they benefit from exposure to new technologies, business practices and standards. They can operate to a higher standard, better position themselves against market risks and be more agile and flexible in different customer environments. By absorbing what they learn and continuously improving, exporters can re-invent themselves – becoming highly productive, competitive players on the global stage.



## Re-invent ►►►

### How can I strengthen my business?

Exporters learn a lot through their constant exposure to foreign businesses, ideas and practices. These companies can then use what they learn to strengthen their business.

#### Build transformative technologies

Exporters are quicker to adopt more advanced technology, in part because the complexities of cross-border trade compel them to organize more efficiently. Canadian exporters gain exposure to innovative foreign technologies that they can then adapt for the domestic market – improving not only their own offerings but also the technology maturity of their industry in Canada.

#### Improve business practices

Exposure to the business practices and processes used around the world can make Canadian companies more flexible and agile. Successful exporters look to foreign competitors and non-competitors to find new ways to improve their business efficiency and help their people stay on top of market trends and shifting global benchmarks.

#### Learn from mistakes

Mistakes can discourage fledgling exporters – but successful exporters also make mistakes and experience failures during the course of their expansion. Their persistence comes from a strong commitment to growth and a willingness to learn, experiment and innovate. Successful exporters also use mistakes to develop best practices and disseminate them throughout the organization.



### LiquiForce leveraged European technology to build a North American industry

LiquiForce is a leader in no-dig pipeline rehabilitation for clean water, waste water and other pipeline systems. CEO Kim Lewis is an industry pioneer who scoured the world for new technologies. The innovators in trenchless pipeline technology are found in Europe, where highly common cobblestone roads prohibit digging. LiquiForce acquired European technology and then adapted and improved it for use in the North American market. Today, LiquiForce offers the world's only totally trenchless system, and is championed by the Canadian government. It receives calls from around the world requesting its technology and services.



## Collaborate ►►

### How can I sustain growth?

Moving into international markets creates new opportunities for companies to collaborate with customers and business partners. The knowledge and perspectives gained can be invaluable.

#### Encourage site visits

Collaboration with foreign customers can help Canadian companies innovate more effectively and improve their businesses overall. Site visits by foreign customers or technical personnel, for example, can generate direct feedback that can be used to improve the quality of products and processes.

#### Pilot innovations abroad

Foreign customers and partners offer Canadian companies the opportunity to jointly innovate and pilot new technologies and products. As Canada's risk appetite for commercializing innovations is often lower than that found in other markets, Canadian exporters sometimes find it easier to obtain funding and develop and pilot products in other markets by working with foreign partners. Companies that successfully test technologies abroad are then able to deploy them in Canada.

#### Partner for scale

Successful exporters often use partnerships to achieve scale, by expanding the market connections and talent available to them. Partnering with foreign companies can help smaller exporters build a global network that can compete with large multinationals, while partnering with educational institutions and distributors can help them acquire talent and expand their capabilities.



### HyLife raises the bar by improving product quality with Japanese partners

HyLife Ltd. produces and distributes pork products worldwide. As Japanese quality standards for pork far exceed Canadian standards, HyLife invited its Japanese partners to visit its plant and make recommendations to improve processes to meet elevated Japanese standards. HyLife introduced a comprehensive quality assurance process, revised hog nutrition plans and made significant modifications to the manufacturing process to guarantee product freshness for 55 days. As a direct result of meeting the demands of the Japanese market, HyLife is now the quality leader in its industry.



### Saskatchewan Mining and Minerals builds a logistics co-operative to reduce costs

Saskatchewan Mining and Minerals produces and distributes sodium sulphate. Shipping a low-margin, high-bulk commodity entails risks around rail contracts and transportation costs. Entering the U.S. market provided a strong incentive for the company to transform its logistics network. It created a logistics co-operative that pooled goods and commodities from other small, regional producers that faced similar transportation cost risks. It invested in new personnel and tracking mechanisms and expanded its network of transportation companies. By transforming its expertise into a profit centre, the company enhanced its logistics network and lowered transportation costs in Canada and the United States.

# The role of government

Cultivating strong and diversified exporters will serve as a lever for addressing our national trade and productivity challenge. As such, the Canadian government has made trade a top priority. In recent years, the government has made progress in promoting Canadian exports and reducing trade barriers through new trade agreements. However, Canadian exporters – and companies considering exporting – continue to feel unsupported in many ways. To help Canada build an export nation, here we offer a prevalent piece of feedback from our interviews (1) as well as three recommendations from our previous reports (2–4).

## **1. Improve awareness of existing programs**

Canadian companies don't use many of the excellent export support programs available. The EDC has reported that only 20% of Canadian exporters are aware of the EDC.<sup>34</sup> The BDC, the Trade Commissioners Service and a large number of industry associations also provide a range of programs to help exporters, including mentorship and networking opportunities, yet many companies are unaware of them. Government and organizations should work together to improve the visibility and accessibility of their export promotion programs and consolidate the available information in a way that minimizes the confusion and burden for businesses seeking support.

## **2. Structure incentives around growth**

Financial support programs in Canada heavily favour small businesses – and create a disincentive to grow too large. Scientific Research and Experimental Design (SR&ED) credits, for example, are significantly higher for small companies than for large ones. Yet our research has shown that small companies are no more likely to drive growth than their larger peers. Replacing size-based qualification criteria with criteria that reward growth – whether incremental or sustained – would encourage more Canadian businesses to expand through exporting.

## **3. Continually identify and negotiate free-trade agreements**

With rapid growth taking place in emerging economies, we must reduce our reliance on the United States and seek new trading partners. Government should prioritize finalizing high-potential free-trade agreements (FTAs) with emerging markets as well as large-scale FTAs with the European Union, the Trans-Pacific Partnership, Japan and India. These agreements will be critical to boosting Canadian participation in the economies driving future global growth. Government should also implement post-agreement commercialization frameworks that measure the success of signed FTAs and track progress toward specified targets.

## **4. Bring foreign visitors to Canada**

Canada's tourism industry is a powerful export driver. Deloitte's 2013 report, *Passport to Growth* found that a 1% increase in international arrivals would generate \$817 million in increased exports in the two following years. To promote tourism, government can introduce structural reform to the air travel sector and meaningfully reform visa issuance to ensure that Canada is an affordable and hassle-free destination. With these changes, Canada can see an increase in both foreign visitors and Canadian exports.<sup>35</sup>



# Closing remarks



Canada's productivity and competitiveness are closely linked with the strength of our exports – and thus the success of our exporters. Helping Canadian companies succeed abroad will bring direct benefits to these businesses – and even greater benefits to the country.

Government can support Canada's exporters by building an infrastructure conducive to trade and opening up opportunities for businesses to grow. But governments can't do it alone.

It's time for Canadian business leaders to be bold and move into global markets. Whether exporting is an immediate or a long-term objective, business leaders should take action today. They can begin by adopting a global mindset, seeking out information and perspectives from others, and making the right call for the futures of their companies.

The advice we offer in this guide distills the experience and perspectives of some of Canada's most successful exporters – but it's only a beginning. By engaging in conversations with other businesses who have transformed themselves into exporters, companies can learn much, much more. No matter where a company is on its export journey, a continuous desire to learn and transform will pave the path to success.





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Primary research for this report was based on 46 interviews with key decision makers of Canadian exporting organizations, most of which were selected from Deloitte's Best Managed Companies lists, with a few organizations identified through provincial Chambers of Commerce.

The exporters interviewed are distributed across industry sectors and geographies, and include 17 large companies, 20 medium-sized companies and nine small companies. The large majority of interviewees were senior executives (e.g., founder, president, CEO, director) of the organizations they represented.

Interviews were conducted as 30-60 minute telephone conversations in which interviewees were asked to share their motivations and experiences related to exporting, including success stories, challenges and lessons learned. Their collective stories and perspectives provided valuable inputs to this report.

To gain a broader perspective on the issue, we also conducted four interviews with leaders at non-exporting organizations and seven interviews with representatives of export support organizations for a total of 57 interviews.

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Kevin Fitzgerald, President & CEO – MDS Aero Support Corporation  
Roy Cook, President & CEO – Monarch Industries Ltd.  
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Paul Soubry, CEO – New Flyer Industries Canada ULC  
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John Rose, President – Nuheat Industries Ltd.  
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Stephen Emmerson, CEO – PolyCello, A Division of EPC Industries Ltd.  
Don Solomon, VP Finance & CFO – Richardson International Ltd.  
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Ron McArthur, President – Wolf Steel Ltd.  
Richard Motyka, General Manager – Wolf Steel Ltd.

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