How to Promote Smart Exporting among Canadian Companies

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The benefits of exporting are compelling. Exposure to new growth opportunities, global best practices and diverse competition challenge exporters to excel. Exporters grow faster, are more productive and achieve better market performance than their domestic counterparts. More surprisingly, exporting can actually reduce a company's risk of failure. Geographic diversification can balance risk, calm volatility and improve a company's ability to withstand the ups and downs of business cycles.

Despite these business benefits, less than 4 percent of Canadian companies export.[1] Non-exporters cite various barriers, such as distance, the strength or volatility of the Canadian dollar and unfair trade rules. Yet many businesses have overcome these barriers to compete and win on the global stage. What is their secret? To find out, Deloitte interviewed 46 experienced Canadian exporters to discover what they are doing right, learn about missteps they have made along the way and identify lessons they can offer to prospective exporters. These insights are the basis for Deloitte's guide to smart exporting, which takes a three-stage view of the export journey and highlights key success factors (Deloitte 2014). Companies of all sizes and in all sectors can use these strategies to better prepare for exporting and improve their chances of success abroad.

At the same time, the federal government can play an even stronger role in promoting Canada's exports in the following four ways:

> improve awareness among Canadian businesses of existing trade-promotion programs;
> structure the incentives of government programs around firm growth, not firm size;
> finalize and implement as quickly as possible important free trade agreements; and

> promote the Canadian tourism industry to bring more foreign visitors to Canada.

A Three-Stage Guide to Smart Exporting

Stage 1: Think like an exporter

PROSPECTIVE EXPORTERS NEED TO START 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 the competitive global marketplace.

Reflect: Is exporting for me?

Any fledgling exporter needs to determine its value proposition and specialize around it. This could be something tangible, such as an innovative product, or intangible, such as outstanding customer service. Canadian companies should look globally to determine whether they have a compelling product or service by benchmarking themselves against international competitors in areas that are differentiators, such as quality, delivery time, customer service and efficiency. If a firm is struggling to identify a compelling value proposition, it might be premature for it to venture into export markets. Many exporters develop and refine their value proposition over time, finding strengths outside their perceived key competency.

Prospective exporters should be prepared to invest in new capabilities and skills in order to thrive in new markets. Exporting is not limited to large, resource-rich companies. In fact, 89 percent of Canadian exporters are small and medium-sized enterprises.[2] Smart exporters can overcome size and capital constraints, but a critical step is selecting the right people to build their businesses and ensuring organizational commitment.

Many companies recruit talent to match their target market. They hire for language skills and mobility, seeking employees who can lead, communicate and operate within the local market's cultural and business practices. Furthermore, organization-wide commitment is essential — not only to support the investments required, but also to obtain financing to fund the export activity. Banks and creditors build positive relationships with companies that invest in long-term export strategies, not just short-term transactional business.

Explore: Do I have all the facts?

Many inexperienced exporters act on simplistic or incorrect assumptions about markets, risks and regulatory restrictions, only to see their export efforts fail. Therefore, to prepare for exporting, companies need to gather information and learn from others' experiences. Companies should base their exporting decisions on a thorough assessment of the market environment, as entering the wrong market can be costly. In addition to demand size and growth, companies should consider market characteristics such as customer sophistication, brand loyalty, competitive pressure and regulatory risks and constraints. One valuable source of free information is the Canadian Trade Commissioner Service, which has staff in more than 150 markets worldwide and offers market intelligence and advice to help Canadian businesses succeed abroad.

Of course, no amount of market research can replace learning from the experiences of other exporters and people on the ground in local markets. Our interviewees said that talking to other exporters was essential. Customers and suppliers already operating in a market can share local insights, facilitate referrals and serve as anchors during market entry. Finally, companies that engage with foreign competitors and industry players often learn about new technologies or find partnership opportunities.

To connect new and experienced exporters, organizations such as Canadian Manufacturers and Exporters (CME) and the Business Development Bank of Canada (BDC) offer forums and programs such as QG100, a network of chief executive officers who help one another seize global opportunities by sharing knowledge and export strategies.

Stage 2: Become an exporter

The first year of exporting is often particularly 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. By preparing thoroughly and building business relationships over time, new exporters can lay the groundwork for sales and success.

Promote: How do I reach customers?

New Canadian exporters should remember that likely they are 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. Trade shows allow exporters to improve their visibility and credibility, enhance their understanding of the market and meet customers, potential partners, distributors and competitors.

One of the greatest challenges new exporters face is convincing customers of their capabilities. Already, however, 28 percent of Canadian manufacturers produce goods that are used as inputs for exports, and another 23 percent produce goods that are exported as-is by their Canadian customers (Industry Canada 2012, table A3). 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.

Localize: How do I engage customers?

The business leaders Deloitte interviewed were united in their belief that exporters need to invest in localization by understanding and adapting to the target market's culture, business practices and customers' needs. For instance, exporters should ensure they meet technical, safety and regulatory requirements of the local market and obtain product approvals and certifications.

Most markets place a high value on relationships, and exporters should determine what local representation is required. For instance, companies that serve a small number of large international customers might find they do not need much local support. In industries where distribution networks are important, however, partnering with trusted local distributors can help exporters bridge cultural and communication barriers and get their products to market efficiently. Some companies might choose to establish their own mobile sales team that understands their customers' culture and language. In many cases, companies might need a physical presence in local markets, although local offices do not need to be permanent and can be scaled up or down in response to market needs.

Protect: How do I manage risks?

The global market offers many potential opportunities, and investing in rigorous due diligence is one of the best decisions any prospective exporter can make. Exporters that are prepared understand their risk tolerance, set reasonable risk thresholds against which they evaluate their options and refresh their risk tolerances accordingly. Furthermore, exporters should look for ways to share the risk with their business partners through supply and pricing arrangements, currency adjustment agreements and contractual stipulations and joint investments.

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 manage their growth carefully, stagger their exploration of new markets and slowly scale up their local presence in foreign markets.

It is vital that exporters vet new business partners, using a consistent process that includes meeting in person. Export Development Canada (EDC), which provides credit guarantees for foreign buyers, can help companies vet buyers and provide intelligence on country risk. Trade commissioners also maintain lists of reputable businesses in each foreign market. Exporters should learn who 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.

Stage 3: Win as an exporter

Canadian exporters that transform themselves to serve foreign customers not only gain new growth markets, they also benefit from exposure to new technologies, business practices and standards. By absorbing what they learn and continuously improving, exporters can reinvent themselves and become highly productive, competitive players on the global stage.

Reinvent: How can I strengthen my business?

Successful exporters look to foreign competitors to find new ways to stay on top of market trends and shifting global benchmarks. Exporters learn through from exposure to foreign businesses, ideas and practices, and they can use that knowledge to become more flexible, agile and innovative, thus improving not only their own offerings but also the technology maturity of their industry in Canada. Mistakes happen along the way, and they can be discouraging, but successful exporters use their mistakes to develop best practices and disseminate them throughout their organization.

Collaborate: How can I sustain growth?

Moving into international markets creates new opportunities for companies to collaborate with customers and business partners. As one example, site visits by foreign customers or technical personnel can generate feedback to improve the quality of products and processes. 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 of other markets, exporters sometimes find it easier to obtain funding and to 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.

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.

Recommendations

In recent years, the federal government has made significant progress in promoting Canadian exports and reducing trade barriers, yet Canadian exporters (and companies considering exporting) continue to feel unsupported. To help Canada build an export nation, Deloitte offers these four recommendations:

Improve awareness of export support programs

Many Canadian companies do not use the export support programs available. For instance, only 20 percent of Canadian exporters are aware of EDC.[3] The Canadian Trade Commissioner Service, BDC 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 to minimize the confusion and burden for businesses seeking support. The government's new "Go Global" export workshops, whose aim is to provide small- and medium-sized enterprises with information and tools to take advantage of export opportunities, are a step in the right direction.

Structure business tax incentives around growth, not size

Many federal and provincial business tax regimes and financial support programs heavily favour small businesses. This creates disincentives to grow too large. For example, Scientific Research and Experimental Development credits are significantly higher for small companies than for large ones. Yet Deloitte's research finds that small companies are no more likely to drive growth than are their larger peers. Replacing size-based qualification criteria with ones that reward growth would encourage more Canadian businesses to expand through exporting.

Continue to identify and negotiate free trade agreements

With rapid growth taking place in emerging economies, Canada must continue to reduce its reliance on the US market and expand linkages with other trading partners. The federal government should prioritize finalizing and implementing large-scale trade deals with the European Union (CETA) and with the Trans-Pacific Partnership (TPP) as well as concluding high-potential agreements with emerging market countries, such as India. These agreements are critical to boosting Canadian participation in the economies that will drive future global growth. The federal government should also implement postagreement commercialization frameworks that measure the success of signed free trade agreements and track progress toward specified targets.

Bring more foreign visitors to Canada

Canada's tourism industry is a powerful export driver. In a 2013 report, it was found that a 1 percent increase in international arrivals would generate $817 million in increased exports in the two following years (Deloitte 2013). To promote tourism, the federal government should reform the air travel sector and visa issuance to ensure that Canada is an affordable, hassle-free destination. With these changes, Canada could increase both foreign visitors and Canadian exports.

Conclusion

Canada's productivity and competitiveness are closely linked to the strength of its exports. Helping Canadian companies succeed abroad would bring direct benefits to these businesses and even greater benefits to the country.

Governments can support Canada's exporters by building infrastructure conducive to trade and opening opportunities for businesses to grow. But governments cannot do it alone; business leaders must also take action. They can begin by adopting a global mindset, seeking information and perspectives from others for the future of their companies.

The advice offered here distils the perspectives of some of Canada's most successful exporters, but it is just a start. Companies and markets differ. Therefore, by engaging in conversations with other businesses that have succeeded in exporting to their target market, companies can improve their own chances of succeeding.

Notes

1. Deloitte calculations based on data provided by Export Development Canada.
2. Deloitte calculations based on data provided by Export Development Canada. It is important to keep in mind that, despite their large number, small and medium-sized enterprises are responsible for a much smaller share of the total value of Canada's exports.
3. Deloitte, interview with Export Development Canada (2014).

References

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