

» EXPORT INSIGHTS 2016

TOP STRATEGIES FOR GROWING YOUR BUSINESS ABROAD

How to select markets | Protecting intellectual property | Dealing with cyberfraud

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SYSPRO Canada is proud to sponsor the inaugural *Export Insights* report on the exporting practices of leading Canadian manufacturing executives, in partnership with *CanadianManufacturing.com* and Grant Thornton.

In recent years, Canadian manufacturers have begun to strengthen their focus on expanding outside of Canada as a strategic means of driving business growth. Among the survey respondents, approximately 60 per cent currently export their products or services.

We are pleased to see the top line results from the report reflect high confidence levels for Canadian manufacturers, with 80 per cent anticipating exporting growth over the coming 12 months. Not surprising, the survey cites the U.S. as the top market choice for Canadian exports; though 85 per cent of respondents agree that they must diversify beyond U.S. borders, in order to grow their exports substantially.

Deciding whether to expand your operations to new markets is the first step, but determining how best to approach your strategy for expansion becomes the more complex and challenging choice.

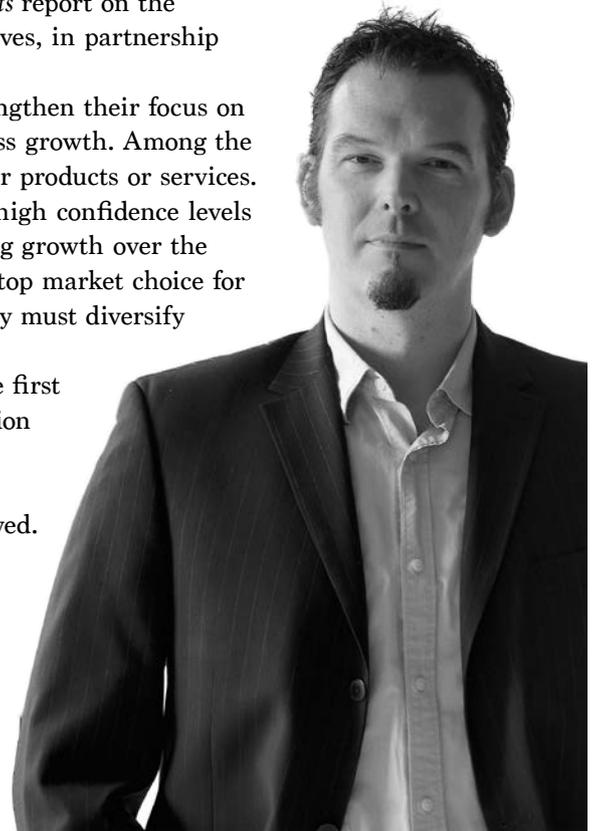
Direct sales managed from Canada emerged as the most common expansion approach, with more than 70 per cent of exporters surveyed. This is not surprising given the low-risk, high-reward aspect. Businesses can easily access an international base of customers, while eliminating costly overhead expenses with on-site premises and additional staff.

Despite the optimism, the survey found less than half of exporters (47 per cent) have a comprehensive exporting strategy with only 26 per cent reporting that they have a long-term strategy; and the majority aren't sure if they will enter a new export market in the next year. Less than half of exporters (42 per cent) feel they conducted enough up-front market research prior to entering an export market. Plus, 60 per cent of exporters surveyed reported being unfamiliar with recent trade deals, such as CETA, and their impact on opening up new export markets.

In order to mitigate risk and remain competitive when expanding into new markets, developing a leading strategy becomes imperative. Having a deep understanding of your target market and regional regulations and guidelines, and proper infrastructure in place including technology and dedicated systems, are key when expanding into new markets.

As a global organization that serves leading manufacturing and distribution organizations around the world by streamlining operational efficiency with Enterprise Resource Planning (ERP) solutions, we feel strongly that Canadian manufacturers have limitless opportunity to develop a successful expansion strategy, aimed at strengthening their reach beyond the Canadian market, and establishing themselves as sustainable global market leaders.

We anticipate great success for Canadian manufacturing in global markets in the coming year, and are excited to participate in the opportunities that lie ahead for manufacturers in Canada. SYSPRO Canada is dedicated to help Canadian companies grow and prosper.



James Weir
Vice President of Sales
SYSPRO Canada



Is it a perfect storm for export-minded Canadian companies? At Grant Thornton LLP, we believe it is—a conclusion we’ve based on decades of experience providing a range of professional services to companies exporting to markets around the world.

These days, there are many good reasons for Canadian firms to venture beyond their domestic market. Sales growth and profits remain sluggish, driven by low commodity prices, high input costs like electricity and growing regulatory complexities. At the same time, conditions have never been better to kick start or accelerate an exporting strategy. Interest rates remain at historical lows, the Canadian dollar is trading at a healthy discount to key global currencies and the Canadian brand has never been stronger.

Survey results from the inaugural *Export Insights* report illustrate the paradox. From a good news perspective, exporting confidence and strategic awareness is high. Eighty per cent of respondents are anticipating export growth over the next year—and not just to the United States. Most respondents recognize they must diversify beyond the traditional American market. Importantly, companies understand that, to succeed, they must do more than merely ride the coattails of a low Canadian dollar.

In terms of target markets, Europe was cited most often as a market respondents are planning to enter, followed by Latin America. Even so, more than half (51 per cent) aren’t sure if they will enter a new export market over the next two years; pointing to the need for better long-term planning. Many survey respondents acknowledge that “offering a unique product” is the key to succeeding in global markets.

Despite the apparent opportunity, key operational gaps continue to challenge execution and increase business risk. For one thing, vital knowledge is not being captured via upfront market research.

Respondents also note that a lack of internal resources and expertise, along with currency fluctuations, present significant strategic and execution concerns.

Exporting has never been more important to the long-term success of Canadian manufacturers. Then again, the stakes in terms of investment and time have never been higher. Fortunately, a variety of exporting best practices exist that will maximize the odds of success. These include: having a bold, long term vision; developing innovative and differentiated products and business models that are tailored to local market conditions; performing thorough market, regulatory and channel research; and last but not least, executing with excellence.

We see this survey as a call to action to encourage Canadian companies to export with confidence, leverage new insights and lessons, and work together to build a more prosperous Canadian economy. As an audit, tax and advisory firm that works with Canadian exporters across the country, we are proud to support them in this journey.

Mitchell Osak

Managing Director, Strategic Advisory Services
Grant Thornton LLP

» ROUNDTABLE PARTICIPANTS



(Back row, standing, left to right): Mitchell Osak, Peter Biro, Eric Lakiem, Mark Falbo, David Doyle.
(Front row, seated, left to right): Pauline Bessada, Ron Harper, Eyal Eshed, John Shelley

All roundtable photos: ©Stephen Urhaney

Welcome to the inaugural issue of *Export Insights*, presenting highlights from a national survey of industrial executives; and a roundtable discussion among Canadian exporters. The project benchmarks manufacturers' current exporting business, and illuminates their challenges, success strategies and plans for growth in overseas markets. Published by *CanadianManufacturing.com* and sponsored by SYSPRO Canada and Grant Thornton, the project collected insight from more than 500 industrial executives across Canada. The follow-on roundtable of nine exporters and experts covered key calls to action, lessons learned and tips from the trenches.

ROUNDTABLE PARTICIPANTS

MITCHELL OSAK,
Managing director,
strategic advisory services,
Grant Thornton LLP

PETER BIRO,
President & CEO,
Newcon Optik

ERIC LAKIEM,
CFO,
Hibar Systems Ltd.

MARK FALBO,
President,
Mircom Group of Companies

PAULINE BESSADA,
Vice-president, operations,
Bissma Agrogroup Inc.

RON HARPER,
President,
Cogent Power Inc.

EYAL ESHEDE
Founder,
Housekit Canada

JOHN SHELLEY,
Operations manager,
WEGU Canada Inc.

DAVID DOYLE,
Customer success director,
SYSPRO Canada
(At the time of the event)

Research is key when targeting new markets

A good product is only half the battle when it comes to exporting success

If uncertainty equals risk, there may be no more risky an endeavor for a company to undertake than opening up a new market for exports.

The large financial commitment is just the start. Manufacturers hoping to leverage the substantial opportunities found abroad face a phalanx of cultural, logistical and regulatory hurdles that must be ironed out before a single product ships to their first customer.

Indeed, if your product is good, finding customers may be the least of your problems.

That sentiment became clear in our recent exporting survey and at our *Export Insights* roundtable, which *CanadianManufacturing.com* convened with help from our partners SYSPRO Canada and Grant Thornton LLP.

Our hope—through surveying manufacturers and then having a discussion with some of Ontario's top exporting mid-sized manufacturers—was to collect leading strategies and tactics that any company can apply to a new exporting project.

Throughout this report we outline more than the strategies of successful exporting firms. We identify some of the common risks a new exporter will face, regardless of where they plan to export, and some of the proven methods of mitigating those risks.

A common theme that came from the roundtable conversation was the need to travel to the market to which you hope to export. Plan to go more than once and bring several of your team members from various levels of your company. They will all need to make contacts and learn how to operate in the new jurisdiction. Expect early failures, plan for them and use those lessons to build out a strong, detailed exporting plan.

Opening new markets is not easy. And it's certainly not cheap. But for Canadian companies it is a vital source of new revenue—the national market simply is not large enough for most companies to focus solely on home turf.

Research your target markets diligently. Visit them, attend trade shows and—most importantly—talk to plenty of people and build your network. When opening a new market, having a good product is only a part of the solution. If you try to forge ahead without a strong base of research and a well-informed network to aid your team, the chips will be stacked against you.



Michael Ouellette,
Editor,
*Canadian
Manufacturing.com*

» GETTING STARTED

BY DAVID KENNEDY

For a handful of countries, including our neighbor to the south, exporting is a bonus business. With a robust internal market, it's not always necessary to venture out.

Canadian companies aren't so lucky.

For many of our businesses—from traditional manufacturers to tech firms—sending goods and services abroad provides a vital stream of revenue. For others, it's the whole ball game.

"It's not a nice to have... for us, exporting is lifeblood," Mark Falbo, president of the Mircom Group of Companies, said.

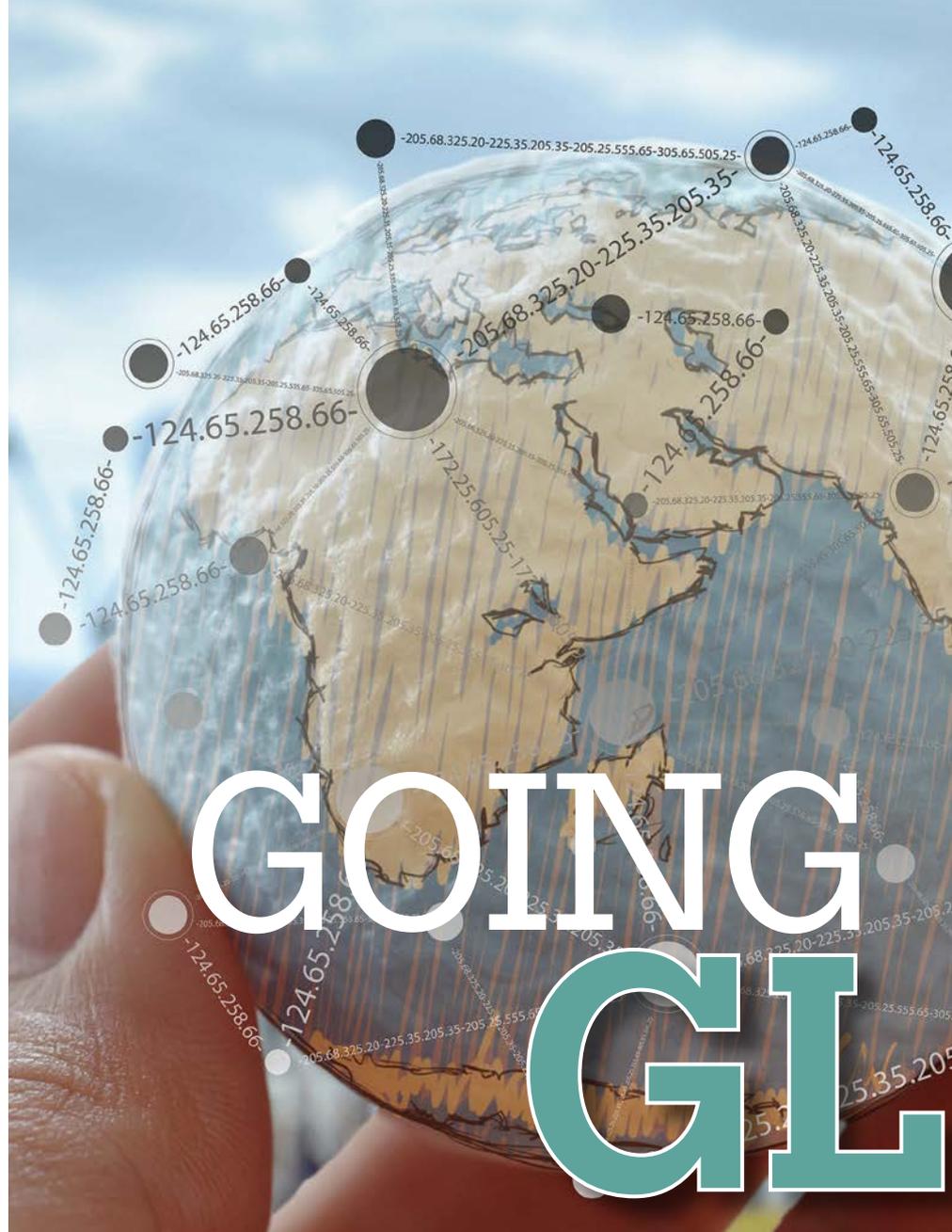
One in a seasoned group of executives and export experts gathered in a Toronto boardroom to discuss international trade earlier this fall, Falbo added that Mircom not only designs certain products for external markets, but actively shapes its overall strategy around exporting.

Many other Canadian companies are no different. With a limited number of customers here at home, they have little choice but to branch out beyond our borders.

"Look, Canada's a small market," said Falbo, pointing to the country's population of just 36 million people.

"It's the size of New York, California—I mean Cairo almost has that many people."

Home to less than half of one per cent of the world's population and about 1.5 per cent of the global



GOING GL

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economy, the Canadian market simply isn't big enough for ambitious Canadian companies.

Exporting may be tough, costly and time-consuming—the export veterans at the table were the first to admit this—but for companies willing to do the research, put boots on the ground around the world

and navigate the sometimes-onerous regulations, the enormous potential for growth overshadows the risks.

A no-brainer, you would think

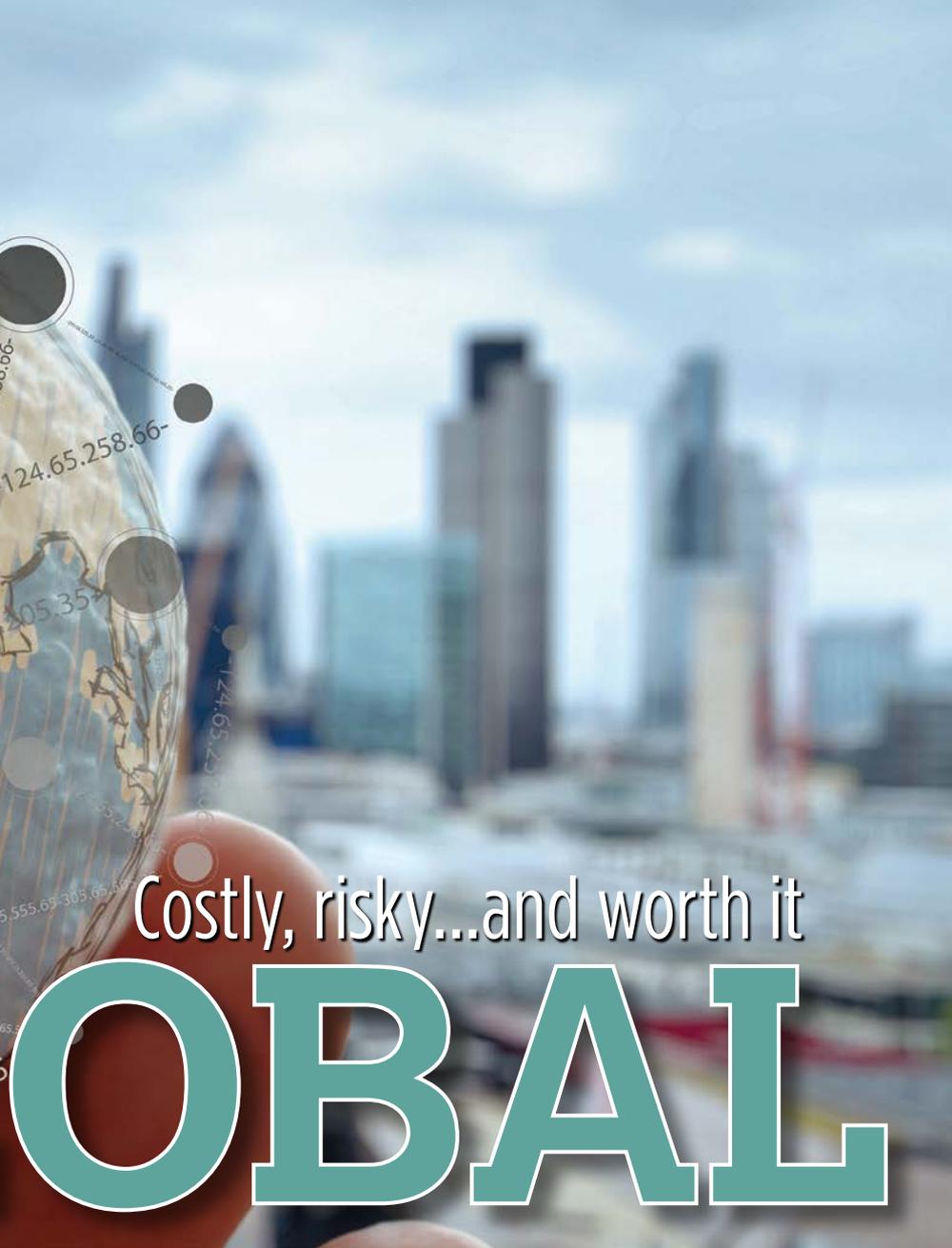
A chance to tap into the 98.5 per cent of the global market located outside Canada should be incentive enough for Canadian companies to make every effort to ship their goods and services out of the country.

Strangely, it often isn't.

It's estimated that as few as four per cent of all Canadian companies export—a number that should be higher no matter how you package it.

In 2015, exports of goods and





Costly, risky...and worth it

OBAIL

services made up 31.5 per cent of Canada's gross domestic product (GDP), according to the World Bank. Though shipments have recovered from a recent low of 28.4 per cent at the height of the 2008 recession, they have yet to climb back to their highs during the years following the ratification of the North American Free Trade Agreement (NAFTA). Exports reached their zenith in 2000 at 44.2 per cent of GDP.

Compared to our American neighbours, who earned just 12.5 per cent of their GDP last year through exporting, Canadian companies appear ambitious. Canada also edges

out the world average of 29.1 per cent, World Bank data show, though not by much.

Still, with the largest economic market in the world often less than a two-hour drive away and overseas trade easier than ever, economists, business leaders and organizations such as the Canadian Federation of Independent Business (CFIB) argue that Canadian companies should be working harder to reach the international market.

In the recent *CanadianManufacturing.com Export Insights Survey*—conducted by Bramm Research Inc. and sponsored by SYSPRO—42 per cent

of the more than 500 companies polled said they did no business abroad. Of those companies, nearly seven in 10 had no plans to begin exporting at all and just 13 per cent said they had laid the groundwork to start exporting within two years.

Despite the apparent hesitance, it's important to note there are a huge number of businesses that will never export. According to the same survey, 54 per cent of non-exporters identify their product as unsuitable for international markets. Restaurants, corner stores and other small-scale local retailers and service providers, to name a few, are highly unlikely to go global.

Nevertheless, the survey shows approximately 22 per cent of Canadian companies could—and probably should—be exporting, but aren't.

Taking the plunge

Of all other reasons for staying within Canada, complacency wins out.

CONTINUED >

Penetrating new markets: Direct sales is the TOP STRATEGY



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It's time to take your manufacturing business to the forefront of the industry. It's time to shift from mere survival to sustainable growth. You can do it. And we can help.

Success that can be sustained over the long term requires bold and innovative growth strategies. Manufacturing leaders around the world know this and are capitalizing on it.

We can help you do the same. Whether it's thinking more strategically about your business, expanding into global markets, or making a more robust investment, our manufacturing industry business advisors can help you make these bold moves.

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An instinct for growth™

Just over half of respondents that do not export, but consider their products suitable for other markets, say business is going well enough at home for them to not bother exporting.

Aside from being a bad long-term internal strategy—economists regularly argue exporting can help companies develop a competitive edge in their internal market—this stay-at-home attitude puts businesses at risk over time as international competition encroaches on them. The Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union, and the massive 12-country Trans-Pacific



The world is very quickly getting smaller and more risky.

Pauline Bessada,
Bissma Agrogroup Inc.

Partnership (TPP), are just the most recent examples of how governments are creating both opportunities and risks for companies by binding markets together.

“The world is very quickly getting smaller and more risky,” Pauline Bessada, vice-president of operations at Bissma Agrogroup Inc., said at the roundtable.

And while competition issues are a foregone conclusion when exporting, staying at home is no longer a prudent strategy for avoiding risk.

Other corporate concerns about reaching overseas markets carry more muster.

Staff shortages, lack of financing, fear of risk, few international partners and an uncertainty about how to start shipping goods and services abroad are among the other top impediments.

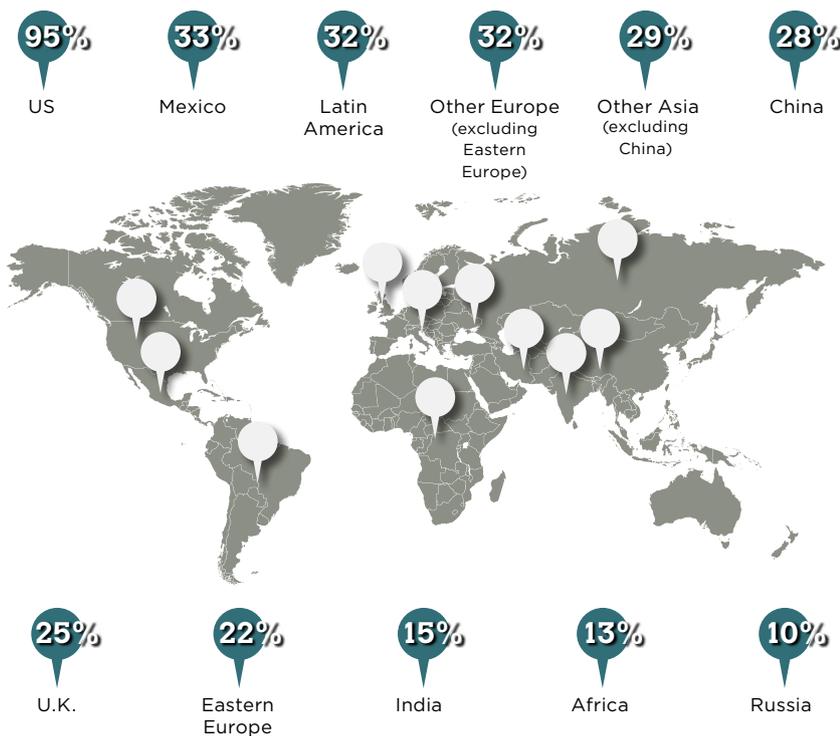
The remainder of *Export Insights* will address these challenges as industry veterans detail several roadmaps for entering new markets, share best practices and offer ways to minimize risk.

Before companies can even begin to strategize or pick target markets, however, they need to take a hard look at themselves, said Mitchell Osak, managing director of strategic advisory services at Grant Thornton LLP.

“What are you really good at? What do you do that’s better than everybody else?” he asked.

According to Osak, it’s only by taking stock of their own capabilities, value proposition and culture that companies can begin exploring how best to move into foreign markets.

Exporters were asked where they export. The U.S. tops the list:



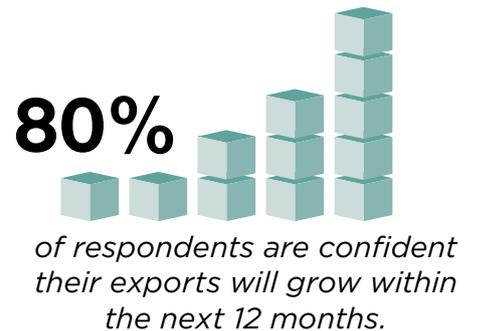
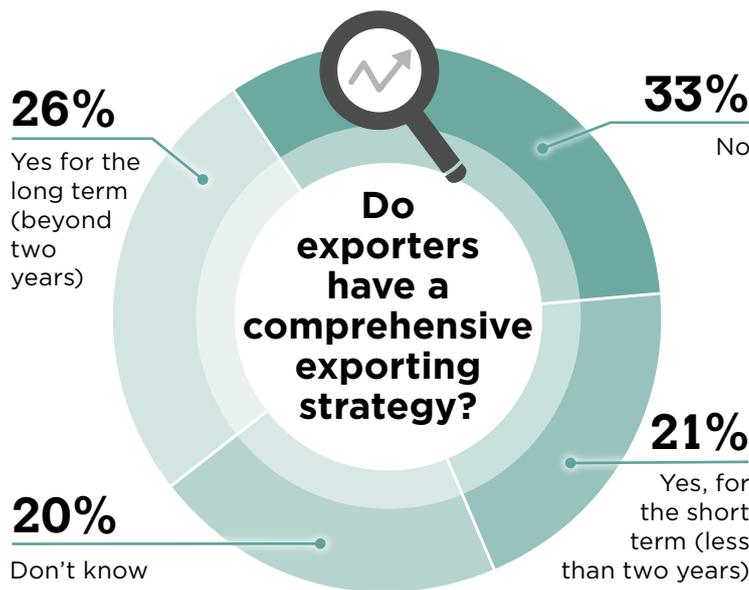
You’ve got to go there, sniff around—and probably fail a few times and make a few mistakes and pick the wrong guys a few times—to finally find the right people.

Peter Biro,
Newcon Optik



Export Insights 2016 Survey Results

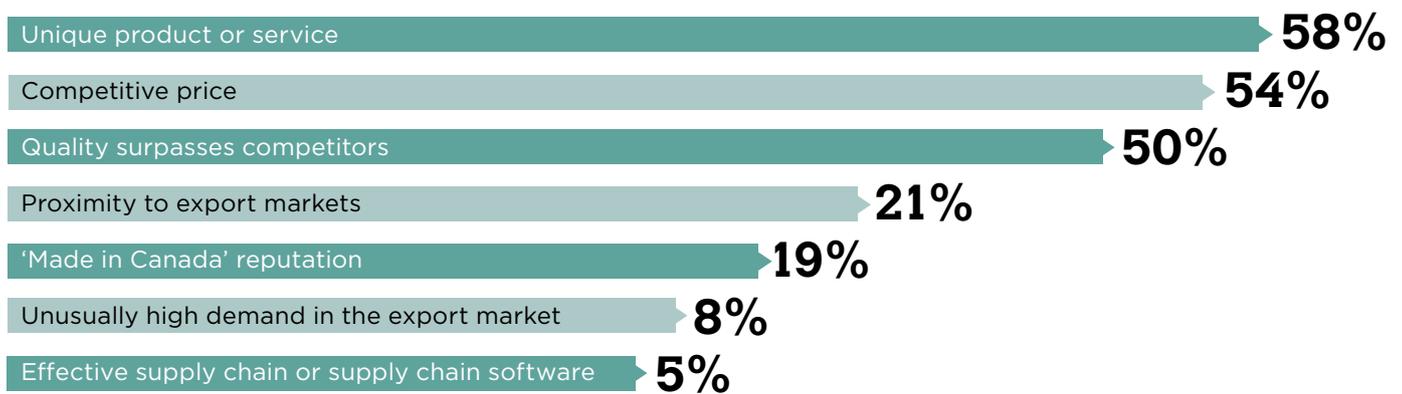
The September 2016 executive survey of more than 500 manufacturing and industrial leaders revealed key benchmarks and trends in exporting. Of the total respondents, more than 300 currently export. These respondents shared insight on their current level of exporting and their future plans.



Do exporters have the right tools and knowledge in place to allow for export growth?



A majority (58%) of exporters say offering a “unique product or service” contributes most to their exporting success:



—Based on 311 responses



Trade deals:

Only **40%**

of respondents are familiar with recent trade deals (eg. CETA) and their potential impact on export opportunities.

25%

Mix of manufactured products and support services

14%

High volume/commodity

What are exporters selling?

—Based on 312 responses

13%

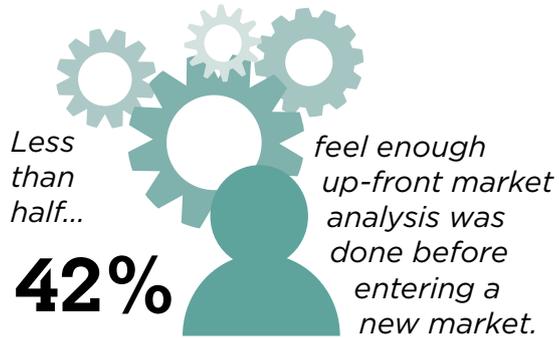
Some/moderate value-add

40%

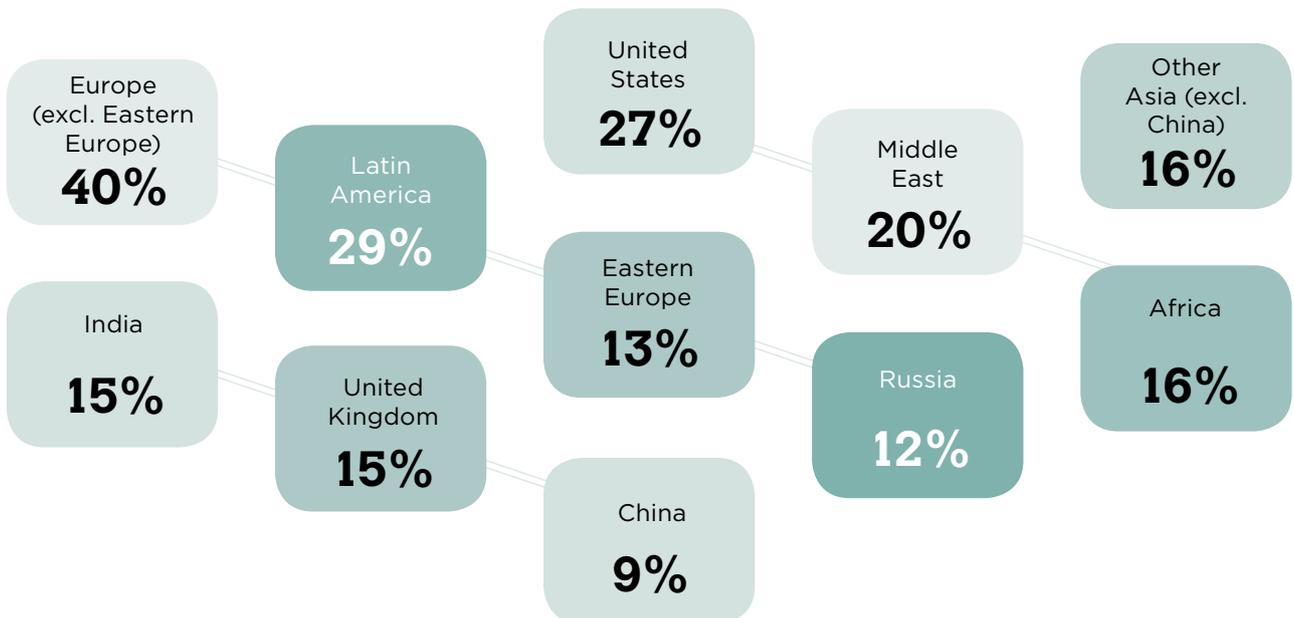
Highly-engineered/custom products

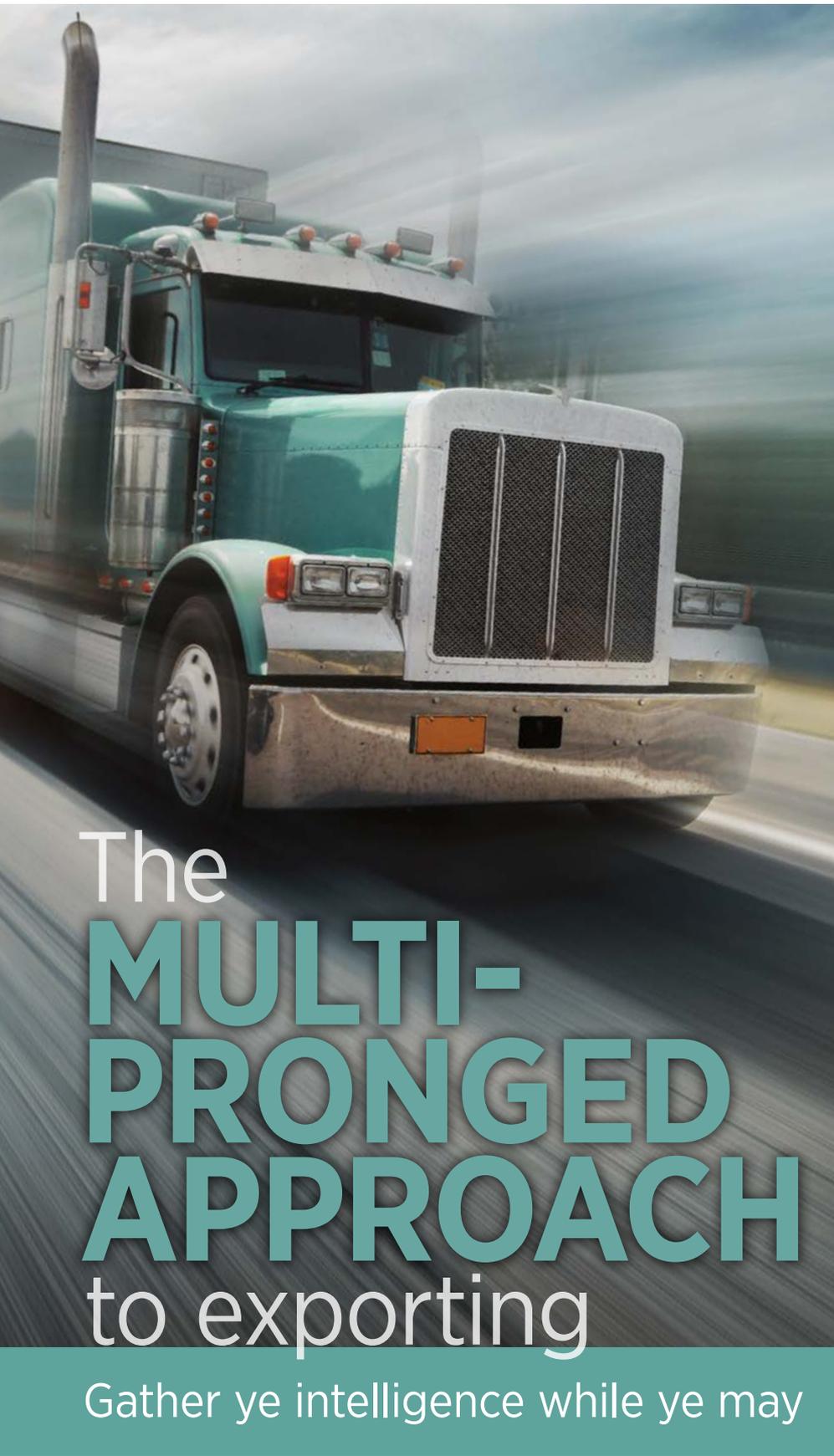
8%

Service or software



New markets on the radar: The 25% of respondents planning to enter a new market cite the following targets:





The MULTI- PRONGED APPROACH to exporting

Gather ye intelligence while ye may

There's no unassailable model that guarantees exporting success.

As the panel of experts was quick to admit, even professionals are bound to run into a number of obstacles, make errors in judgment and retrace their steps a few times before getting it right.

"You've got to go there, sniff around—and probably fail a few times and make a few mistakes and pick the wrong guys a few times—to finally find the right people," Peter Biro, president and CEO of Newcon Optik, said.

"It's extremely tough," he added, recalling missteps, lost tenders and starting again from step one.

David Doyle, customer success director at SYSPRO Canada, recalled similar issues during an exporting push into Southeast Asia. Though the tech firm was forced to go back to the drawing board before finding success, Doyle said the experience taught the company some important lessons about moving into new markets.

"It was invaluable education for us as a company and it's actually changed our methodology globally," he said.

While there may be no silver bullet when it comes to exporting, there are ways to improve the odds.

After a long string of successes and the occasional failure, Biro argues for a multi-pronged approach to exporting. Market intelligence is "critical" he said, adding that getting boots on the ground to meet local people and learn about a market's culture is just as key.

"You've got to use a variety of different resources and strategies to develop your intelligence," Biro said.

While some of the other export experts at the table seemed to lean toward one camp more than the

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other, all agreed that mitigating export risk starts with off-site intelligence gathering.

Picking your market

At latest count, there are just shy of 200 countries on the planet.

According to the experts, one of the first significant mistakes a new exporter can make is assuming each country represents a single cohesive market.

India, for example, has nearly two-dozen official languages and at least as many distinct consumer bases.

“To say I want to enter the Indian market and I want to learn and get boots on the ground is a great start, but it doesn’t tell you anything about which of those markets you want to penetrate and how,” Mitchell Osak said.

Even broad-brushing the U.S. with a single paint swatch is a dangerous move, Ron Harper, president of Cogent Power Inc., added.

“They are completely different, even though they all speak English and they all watch CNN,” he said, pointing to distinct customers in New Jersey, Georgia and other U.S. states. Despite exporting to multiple countries overseas, Harper said one of the most unique markets he’s ever dealt with remains rural Arkansas.

After isolating a number of distinct markets, new exporters must decide which ones are right for them.

According to Harper, it’s all about what you have to offer and what a certain market is looking for.

“I think market research can tell

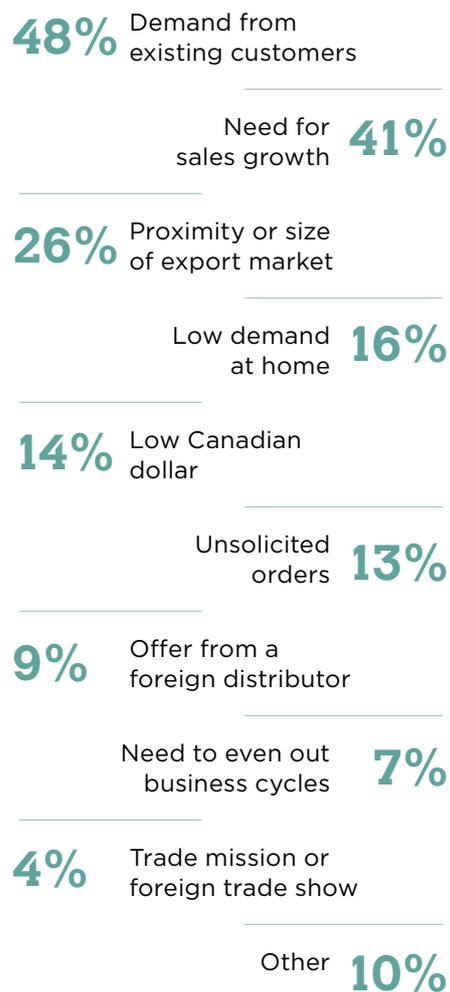
you where to look, but then you go and look for yourself and say, ‘What do the people here value, can what I have to offer and my value proposition match them?’ And if it’s a close match, then you’ve got a recipe for success.”

It may sound simple, but putting aside the West-centric blinders and assessing market needs objectively is no small task.

For most small and medium-sized businesses (SMBs) keeping up with daily operations is a full-time effort—researching and building an exporting plan for a new market is time neither management nor staff can afford. So to help find target markets, SMBs, as well as their larger cousins, often enlist outside help from a specialized consultant.

“You can have five different market entry strategies in China or India, or even the U.S. alone, and I think an independent company with local operations can help a little bit more because they have that in their DNA from the get-go,” Osak said. “It’s not a drive-by, let’s go in and look at the market. It’s embedded.”

Another basic tip is to choose a market that fits your business as opposed to the one that appears to offer the greatest payoff. Twenty-six per cent of Canadian exporters pursued a market because of its proximity or size, meanwhile, nearly half got into exporting as a result of demand from existing clients—a strategy that eliminates the need to pinpoint a completely unknown market altogether.



“

You can have five different market entry strategies in China or India, or even the U.S. alone.

”

Mitchell Osak,
Grant Thornton LLP





“Our strategy is always to try to work with someone who’s local who understands the country, understands the culture, understands the people and understands the business.”

*Eric Lakien,
Hibar Systems Ltd.*

Research voraciously, but understand the limitations

Whether you opt to use an outside consultant or conduct your own research, one basic principle applies: be thorough.

After settling on a market, a new exporter needs to identify potential customers, competitors, partners and local contacts, to name a few. How to ship product and deliver services while satisfying local regulations are two other important fundamentals that can be researched from afar—at least in part.

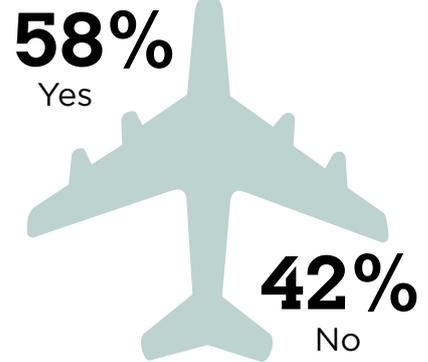
There are countless sources for this national, local and market-

specific information, but industry organizations, foreign trade shows and supply chain partners are the most popular among Canadian exporters.

Another important intelligence gathering strategy many Canadian companies are uniquely positioned to take advantage of is leveraging existing knowledge of foreign markets from within the company itself.

Drawing from Canada’s multicultural population, Mark Falbo said it’s easy to seek out employees who have immigrated from or speak the same language

The survey asked 540 manufacturers if they currently export



as countries Mircom is working to penetrate.

“We’ve got people that speak Spanish, that speak Arabic, that speak whatever language that we need,” he said.

Though language is just one step in the communication process, having workers who already understand your business, as well as the language and culture of a new market, can provide an early leg-up.

Despite heaps of market research, uncertainty has a way of undoing even the best-laid plans. While the export experts gathered in Toronto acknowledged the merits of armchair market research, none could overstate the value of seeing, experiencing and coming to understand a market first-hand.

“It’s not about knowing what you have to do in a new country, it’s really all about dealing with the surprises that you have no clue [are coming]—it doesn’t matter how much research—it’s not even in your peripherals,” said



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Eyal Eshed, founder of HouseKit Canada, a supplier of engineered housing products.

No replacement for putting boots on the ground

Old business habits die hard, and according to Peter Biro, as well as others at the table, traditional exporting strategies have yet to go out of style.

“It’s still the old-fashioned way... still personal relationships, still seeing with your own eyes and still doing basic research,” he said. “Some of the technologies to do that obviously have evolved, but you still have to actually get there on the ground.”

Once there, different companies and executives have different strategies, but most revolve around enlisting the help of someone who’s at home in the market—be it a trade commissioner, joint venture partner or existing customer.

“Our strategy is always to try to work with someone who’s local,



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who understands the country, understands the culture, understands the people and understands the business,” said Eric Lakien, CFO of Toronto-area exporter, Hibar Systems Ltd.

Lakien added that Hibar also often works with multinationals to establish footholds in new markets. Meanwhile, John Shelley, who serves as operations manager at WEGU Canada Inc., said the company has also used its existing North American contracts with Ford Motor Co. and General Motors Co. to begin shipping parts to both automakers’ assembly plants overseas.

While ensuring management gets on the ground is vital, the pros say giving lower-level employees exposure to foreign markets is just as significant.

“It’s incredibly important that you take individuals from all levels in your organization and give them the opportunity to share some of those experiences in those markets,” David Doyle said. “The sales guy is going to be talking to a completely different level at your prospective customer than the president or some executive probably will be.”

Lakien agreed, saying that building a cross-functional team allows companies to establish a better relationship with customers.

“You build a chain with links and it’s harder to break the chain—if one of the links fails, the others are there to support it,” he said.

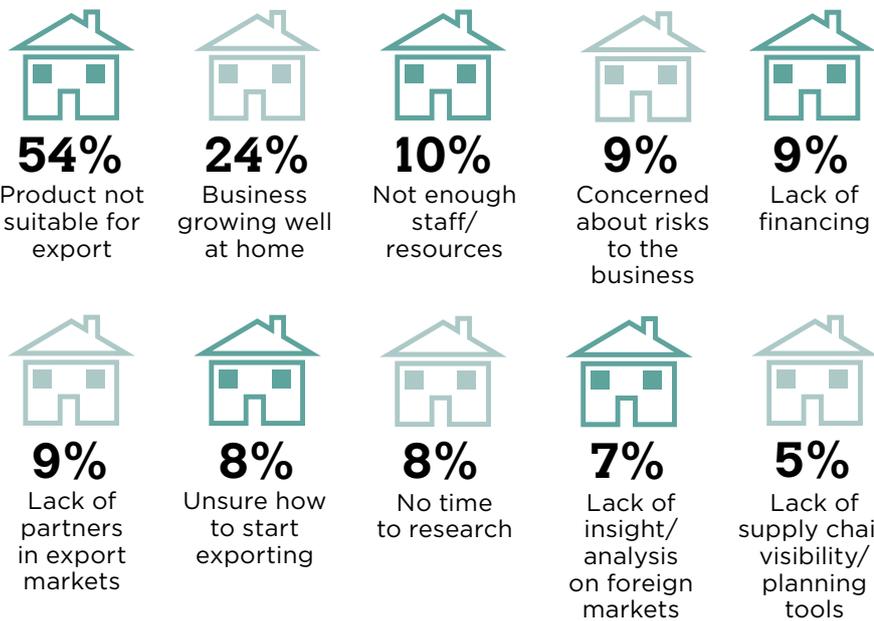
Along with intelligence gathering, traveling to new markets also forces executives to shed the sometimes-stiff Canadian business attitude—opening doors they wouldn’t have otherwise tried.

“We, as a society, are afraid to fail,” Eyal Eshed said.

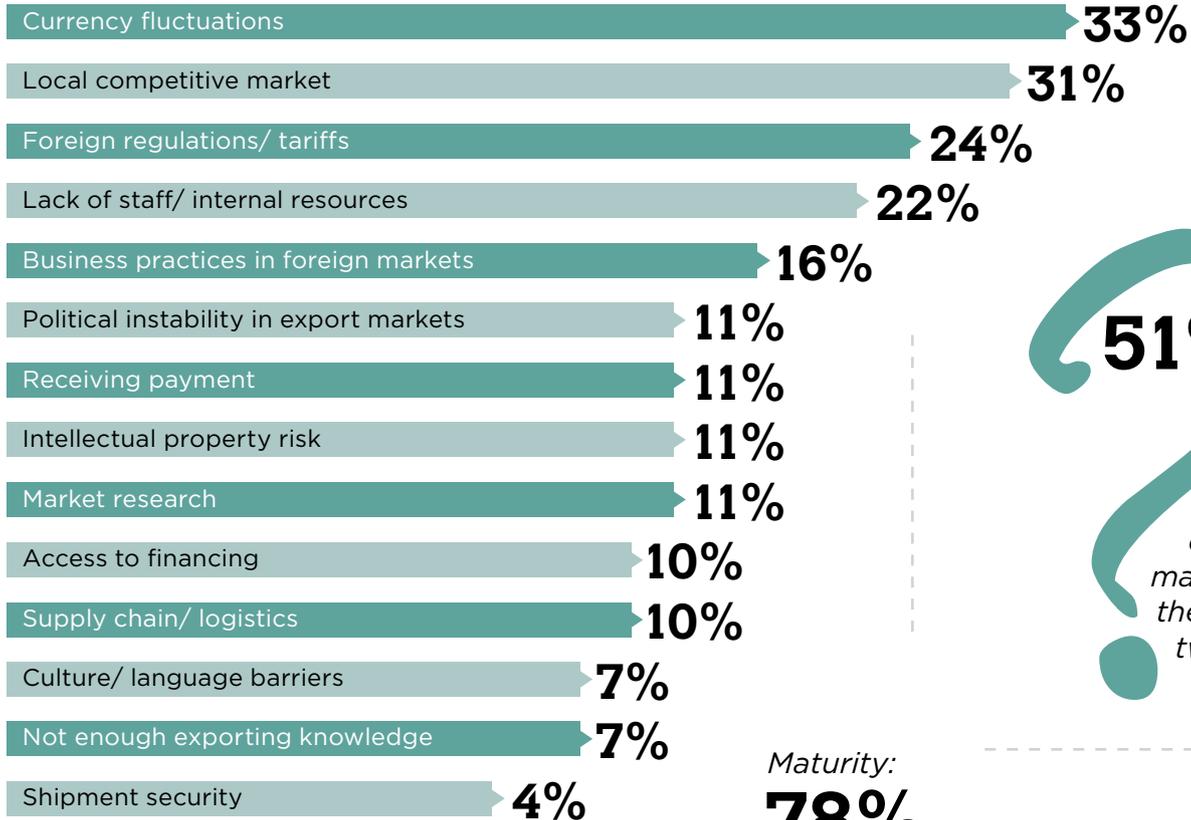
“This is a huge barrier to building trusting relationships with whoever your partner [is.]”

Even if you stumble, he noted, setting up camp in a new market and showing a willingness to take risks is a critical part of creating business opportunities.

Among the non-exporters, the following reasons were cited for staying at home:



Top exporting challenges: Currency tops the list



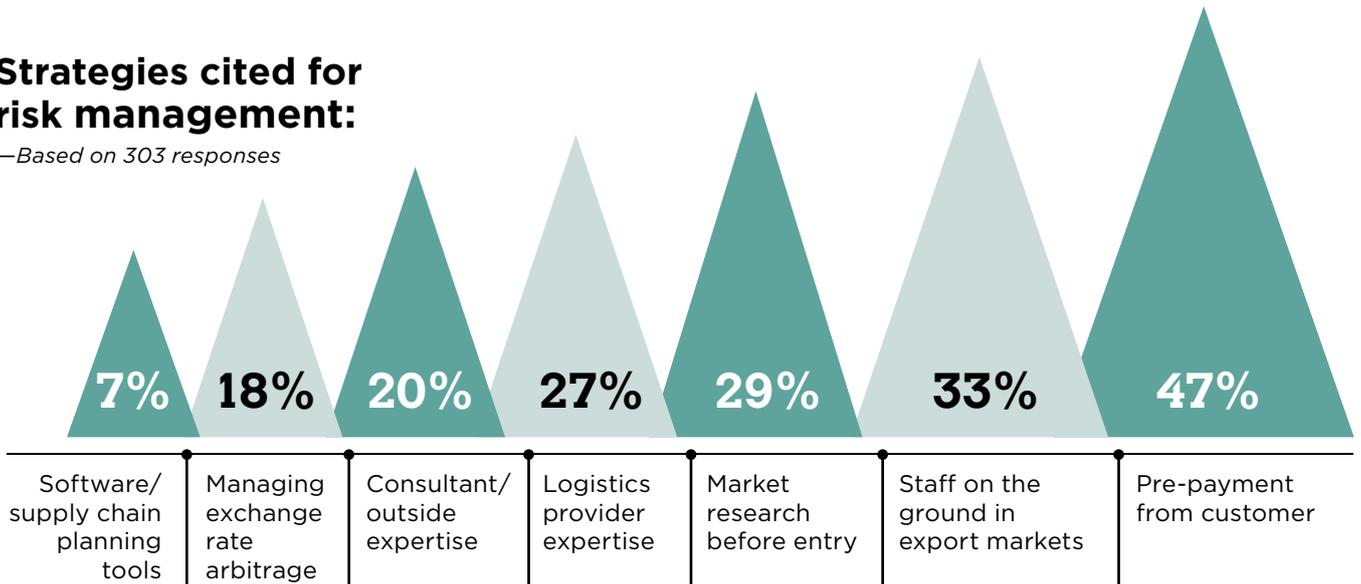
—Based on 305 responses

51%
don't know if they will enter a new market within the next two years.

Maturity:
78%
of respondents have been exporting for more than 10 years.

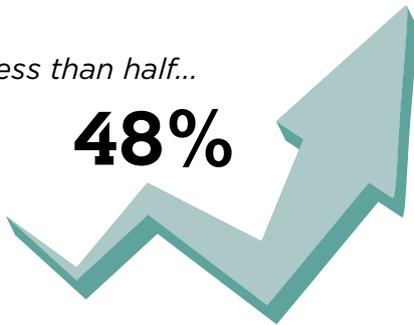
Strategies cited for risk management:

—Based on 303 responses



Less than half...

48%



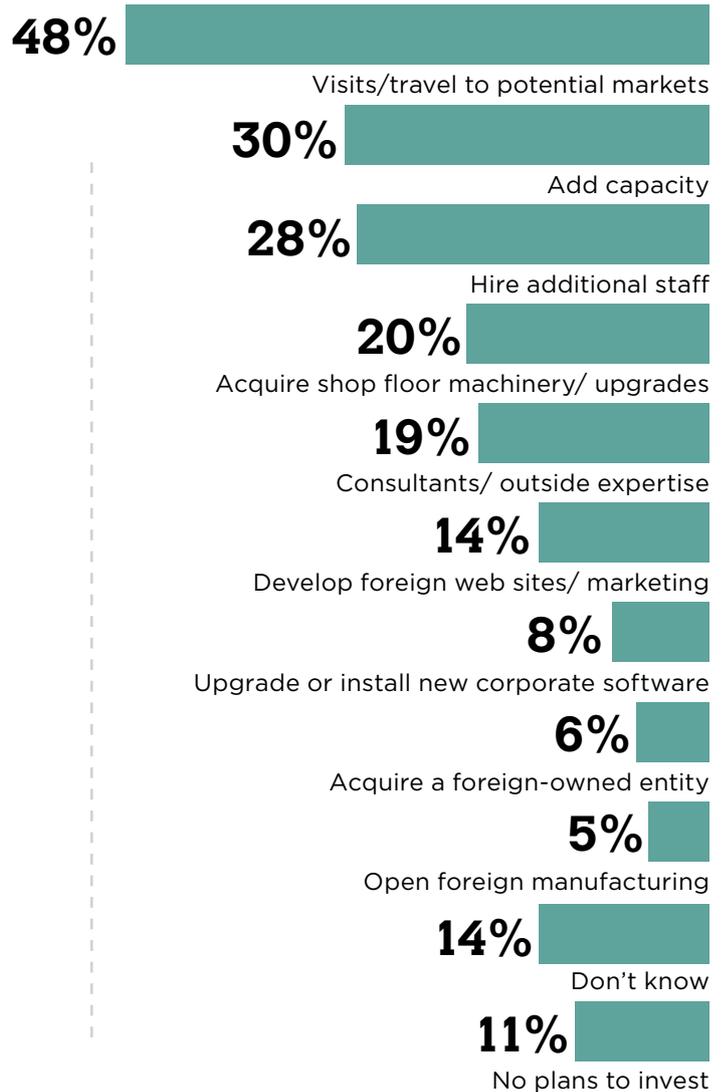
have seen export volume growth over the past 12 months.

Where are exporting business tools and knowledge lacking?



Exporters plan to invest in the following areas over the next 12 months, to grow their exports:

—Based on 312 responses



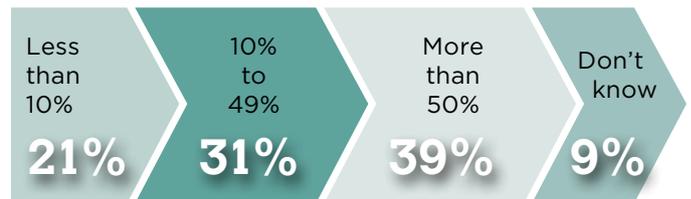
Diversifying:

85%



of respondents agree it's important for their company to find export markets beyond the U.S.

Exports as a percentage of respondents' sales





RISKY Business

Managing risk in exporting is easier
when you have a good plan

BY MICHAEL OUELLETTE

Exports are a critical contributor to Canada's economy, but many potential exporters choose to ignore overseas markets rather than expose themselves to the potential losses of a failed export strategy.

With this topic in mind, a group

of executives from export-focused companies convened in a Toronto boardroom to discuss some of the common risks companies face when they attempt to penetrate markets abroad, and some of the techniques they have used to successfully navigate the process.

Currency Fluctuation

Managing the risks of currency fluctuations is a full time job for a huge section of the financial services sector. The chances are, if you run a manufacturing company, you're not moonlighting on Bay Street playing the money markets. But if you buy materials or sell products in other countries, you are going to need a strategy to protect your company from exchange rate fluctuation.

That, however, does not mean you must have a comprehensive, all-encompassing hedging strategy. Sometimes, simply buying stuff from the same markets in which you sell stuff can create enough of a natural hedge.

"From the manufacturing perspective, we naturally hedge by buying our suppliers' products in U.S. dollars and selling our products in U.S. dollars," said Eyal Eshed, founder of HouseKit Canada, a supplier of engineered housing products.

The company has been on the growth track over the past couple of years, and Eshed said this growth has actually increased the amount of currency risk on the horizon.

"We are dealing now with increasing suppliers and capacity so we can service our new clients, so we need credit," he said. "We have been working with EDC to have customers secure their credit, so there's not a lot of risk that we are managing, but we can see more risk around the corner."

Mitchell Osak, leader of the strategic advisory practice at Grant Thornton, has seen this before, and he cautions that focusing on hedging is less important than doing what you can to maintain a strong degree of certainty.

"I've seen a lot of great hedging strategies blow up and cost

companies a lot of money," warns Osak. "Even Goldman Sachs gets it wrong, so hedging is one thing but certainty is more important. Pick a currency and do everything in that currency. It provides a proper baseline."

Osak also suggests taking a little less profit to mitigate the downside.

"You are dealing with significant risk in hedging. Financial instruments are so complex now that certainty is much better, and sleeping at night is much better," he said, suggesting that if it means taking a little less profit, it's probably still worth doing.

A conservative hedging strategy is absolutely critical, but someone with expertise in manufacturing can easily outsmart themselves when delving into the very complicated area of currency, something Osak equates to playing around with a

weapon of mass destruction.

"Even if it blows up somewhere else, the radiation will almost certainly wash over you. Use these things cautiously. You have to use them, but realize it's not the silver bullet."

Cogent Power Inc., which manufactures transformer cores and components from its plant in Burlington Ont., uses a conservative hedging strategy. Cogent is part of the Tata Group, a multinational holding company based Mumbai in India, and Ron Harper, Cogent's president, often must defend this strategy.

"I deal with this with our parent company. The question is always 'why didn't you hedge it properly?'" quips Harper.

"My argument in all of this is that we are applying a currency fluctuation mitigation strategy, not a

A MODERN APPROACH TO GENERATING LEADS

In the age of international competition, traditional sales leads do not come cheap.

But that doesn't mean there are not innovative ways to find new customers at little cost.

Eyal Eshed, founder of HouseKit Canada, recently oversaw just such a project at his Canadian building products company.

Relatively simple to execute, the initiative used Internet analytics to pinpoint what regions of the world to target.

First, Eshed worked with a developer to hone his company's website content and make it discoverable globally. Then, he began monitoring from what parts of the world the Internet traffic originated.

"We were able to point specifically to countries [where] it generated interest," Eshed said. "That gave us the idea of where the markets are, or where people are actually looking for this kind of technology."

Armed with that fore-knowledge, the company was then able to make contact with partners and trade commissioners in specific regions of interest.



guarantee. You can't expect to have transactional guarantees in hedging," said Harper.

"The goal is to minimize potential impact, not to eliminate it. When you try to control something that's uncontrollable, you make it worse. Sometimes we feel more like currency traders than exporters."

Intellectual Property Infringement

There's no denying that the threat of intellectual property (IP) infringement increases a great deal when a company begins doing business in foreign markets, but the phenomenon is decidedly more acute in some of the more developing economies.

Historically, a company's answer to IP infringement has been to acquire a strong portfolio of patents—often in multiple jurisdictions—and litigate aggressively.

But times are changing, and the recent trend among many manufacturers has been to forgo the cost and effort involved with obtaining patents. Instead, many try to continuously innovate, retain critical knowledge in-house and bring new products to market that render counterfeits essentially obsolete.

Newcon Optik, a manufacturer of optical and imaging equipment used in the security and defence sectors, employs a combination of these strategies to maintain market share and foil counterfeiters.

"We had spent a lot of time

THERE FOR THE TAKING

Sometimes there's no reason to over-think it. It's often less than 100 miles down the road and it's the largest market in the world.

According to the *CanadianManufacturing.com* exporting survey, 95 per cent of Canadian companies that export, export to the U.S. With other markets such as Mexico (33 per cent), China (25 per cent) and the U.K. (28 per cent) seeming almost like afterthoughts by comparison, there are precious few reasons to not begin shipping product south of the border as a starting point.

Mircom and countless others did just that.

"[The U.S.] was a close, logical market and it was a stable market," said Mark Falbo, president of Mircom. "Before we ever ended up in Kuwait, we started learning how to deal with shipments, and how to deal with people, and how to structure. Then you grow from there."

New exporters need to learn to crawl before they can walk or run, Falbo added. With its proximity and scale, the U.S. market helps most Canadian exporters get on their feet.



thinking about this and protecting our IP, but we've stopped doing it," says Biro. "For some people it's probably vital to take out patents, and we have gone that route before, but for the most part it doesn't make sense."

Newcon has an advantage on this front, because its products are terribly difficult to reverse-engineer, though that doesn't stop the pretenders from trying.

Indeed, Biro believes protecting your IP comes through agreements, and through hiding the technology in different ways.

Not all companies have the luxury of exporting without the protection

of patents. But even these companies understand that true IP protection comes from a suite of tactics, not simply relying on patents.

"We have a large stable of patents. In China, we have had products that have been reverse-engineered but at this point they still can't meet our quality," said Eric Lakien, chief financial officer at Hibar Systems Ltd. in Richmond Hill, Ont.

Hibar manufactures automated liquid dispensing systems and battery manufacturing lines and sells them all over the world. The company has been building and selling products in China for 40 years, and established a subsidiary there



You can't expect to have transactional guarantees in hedging.



Ron Harper,
Cogent Power Inc.

in 2002. Indeed, it has plenty of experience in IP protection—it even had to defend its own name from being trademarked.

Lakien said Hibar also stays ahead of the curve with research and development and new product development and enhancement.

“We found the best strategy is to stay ahead of the game and not waste our time trying to fight every patent infringement,” said Lakien.

“We partner with a lot of large U.S. multinationals, and at least they respect the agreements we have with them, and that’s more important to us. Our reputation for quality and precision is what’s behind our name, and it has helped us more than any patents have.”

The biggest problem with the patent process, said Lakien, is the amount of disclosure required to obtain the patent gives any unscrupulous counterfeiters all the information they would need to steal your IP.

Sometimes, the best way to keep your IP from being pilfered after you enter a foreign market is simply to keep your most crucial technology at home.

David Doyle, customer success director at ERP software provider SYSPRO Canada, says he’s seeing this kind of tactic a lot more often among SYSPRO’s clients that focus on exporting—so often, in fact, that he’s taken to calling IP “secret sauce.”

“One of the trends we are seeing across the Canadian customer base in response to revenue erosion from IP infringement out of the Asian market is that our customers are creating a “level 2” version of their best products which they make in Asia, but they hold back the secret sauce IP and keep that in Canada,” said Doyle.

Not every company has a product or internal processes that are compatible with this tactic, but if your firm can find a way to do it, it greatly reduces the chances that someone will successfully infringe on your protected property.

Finally, if none of this works, Mark Falbo says it’s time to bring out the big guns.

“Get a good law firm to write your first threat letters,” said Falbo, president of The Mircom Group of Companies. Mircom, based in Vaughan, Ont., designs, manufactures and distributes intelligent building solutions.

“People stealing IP often Google your company and your law firm to learn how willing you are to defend.

creating a huge patent portfolio is an expense and the results are questionable, so I look at the most litigious parts of our markets and tend to get patents for defensive purposes and cross settle with people instead of using them as full protections,” he says, adding that a strong relationship with partners in your supply chain can also mitigate a lot of the damage done by counterfeit products.

“We also depend on our channel partnerships. They tend to value our company not just for our technology, but for how we deliver it. If someone does get the same technology, we still have an advantage. The value proposition of the company is beyond just the technology.”



One or two good fights and they find out you are willing to see things through, and it discourages some of this stuff,” says Falbo.

To do this, you must have the patents to back you up. But Falbo says you can cut down on the expense and time required by picking the right products to patent.

“To go through the formality of

Cyberfraud

One of the most pervasive threats to a company in recent times is the scourge of cyberfraud. While digital IP theft, data theft, ransom attacks and lockouts can happen to any company in any market, the act of exporting exposes you to digital threats you may not have expected.

Pauline Bessada, vice-president

“

We have been working with EDC to have customers secure their credit, so there's not a lot of risk that we are managing, but we can see more risk around the corner.”

”

Eyal Eshed,
Founder of HouseKit Canada



of operations and trade at Bissma Agrogroup Inc. had just such an experience.

Bissma's head office is in Pickering, Ont., and it has offices in China. The company exports legumes and seeds around the world. It has been trading with East Africa since in 1908 and has an office in Nigeria.

And that is where Bissma's closest call with cyberfraud originated.

“We do a lot of buying from Nigeria, and they don't like to use the banks there. You often have to send money to purchase product, and it's not a small amount of money,” began Bessada.

“We had a contract, cargo was shipped and we insisted that we pay against documents we receive in our office,” she said.

Bissma received those documents,

but details were missing and Bessada had to chase the document—it seemed as if the vendor had changed the payment bank.

“They had enclosed letterhead signed by the president of the company, so we paid against the new instructions, but it was strange—they asked us to pay a bank in Germany when the provenance of the company was in Hong Kong.”

But after carefully examining the documents again, Bessada followed the instructions, and remitted payment. Two weeks later she got an angry call from the vendor wondering why she had not yet paid.

“We were shocked! I even sent a copy of the payment. That's when they told us to check the email.”

As it turns out, the whole string of correspondence with their vendor had been hijacked by a crafty

criminal who had obviously done his homework, or had some inside knowledge of the vendor's operations. The email chain containing the new payment information was from a different IP address which was nearly identical to the legitimate address.

“This other company had intercepted our communications and created new IP addresses with one different letter. The supplier's IP address was changed as well. They created three email addresses, they even sent an airway bill number,” said Bessada, still incredulous.

“I hung up with the legit company and within a few minutes we got a call from the bank questioning the payment. Obviously, we stopped the payment—it was a miracle that we got our money back. A lot of companies have a similar experience and do not get the money back.”

David Doyle from SYSPRO said he sees new digital tricks all the time, and rarely do things work out as well as they did for Bissma.

“It's not just phishing and hacking that make up cyber fraud,” said Doyle. “Basically, there are two types of companies in the world—those which have already had data stolen and those that are going to have data stolen.”

Clearly, heading into export markets opens up new and unanticipated risks, from intellectual property theft to fraud. But the group agreed the benefits far outweigh those challenges. The right preparation and research can help mitigate some of the threats along the way to exporting success.



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About Export Insights

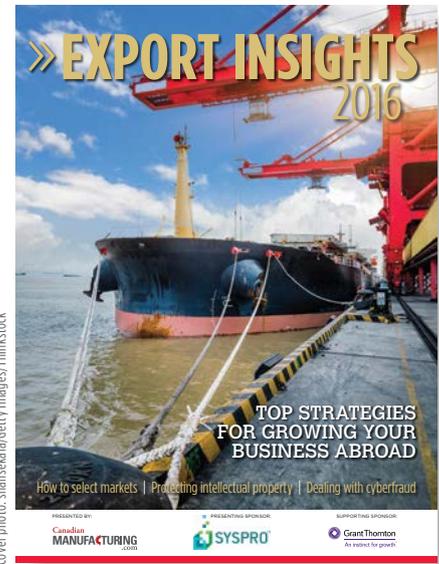
This report is a culmination of a national survey of industrial executives and a follow-on roundtable of exporters, partners and trade experts. The survey was fielded August to September 2016, and drew more than 500 responses.

The survey was conducted by Bramm Research, a third-party research firm based in Oakville, Ont.; commissioned by *CanadianManufacturing.com*; and sponsored by SYSPRO Canada, with support from Grant Thornton LLP.

The research delved into exporters' current level of overseas trade, and asked about their perceived challenges, knowledge gaps and proven success strategies. Among the respondents, 60 per cent are current exporters. The 40 per cent who report they don't currently export shared insight on the reasons they prefer to keep their business in Canada, along with challenges preventing them from starting an exporting program.

The roundtable discussion was held in September in Toronto and hosted participants from a range of market segments.

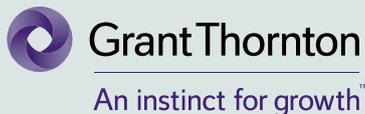
At time of press, David Doyle was no longer with SYSPRO Canada.



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