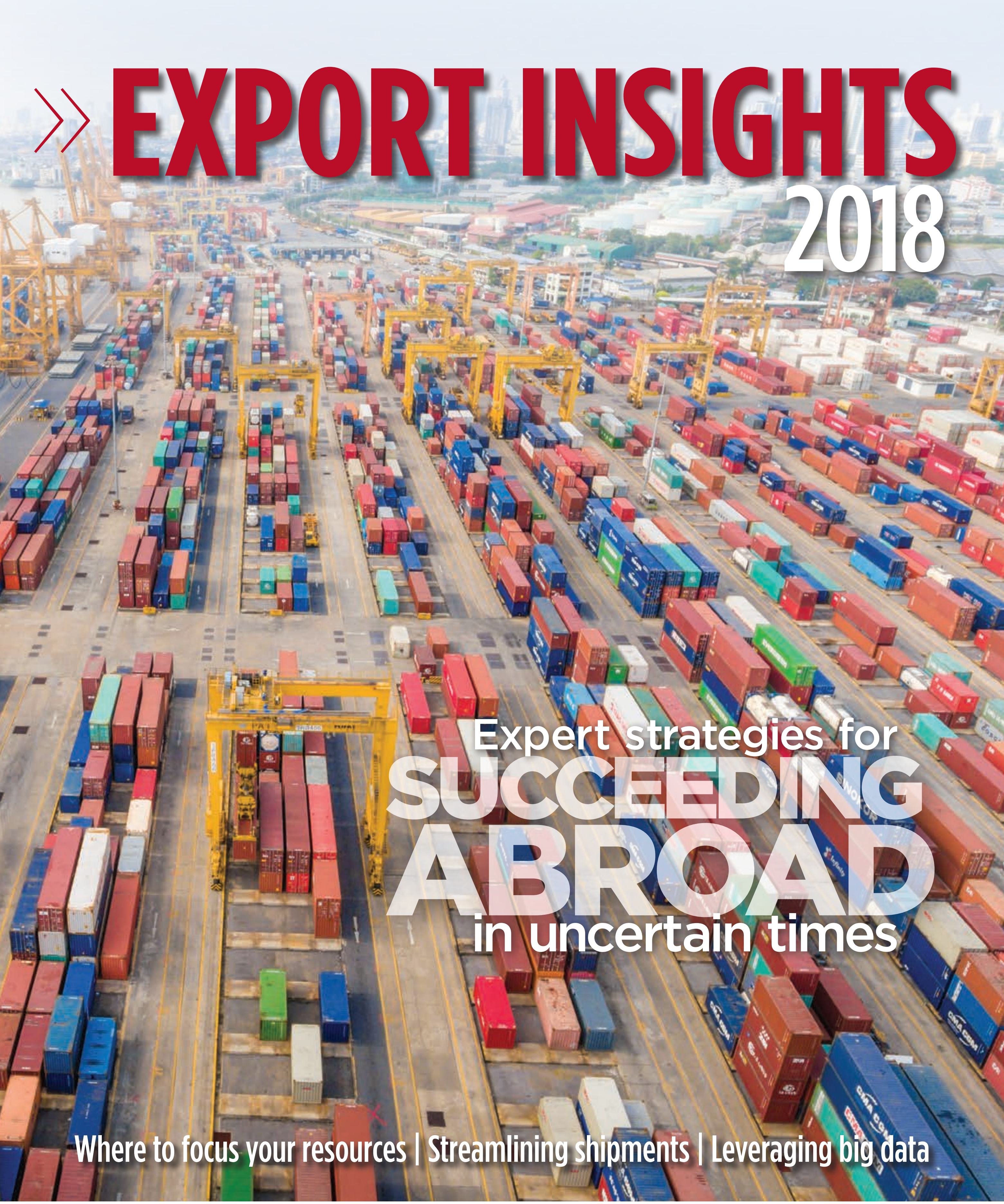

EXPORT INSIGHTS 2018

Expert strategies for SUCCEEDING ABROAD in uncertain times

Where to focus your resources | Streamlining shipments | Leveraging big data

SYSPRO Canada is proud to sponsor the *Export Insights* report for 2018. We are grateful to have been given the opportunity once again to partner with *CanadianManufacturing.com* and Grant Thornton on the survey and roundtable discussion.

We would like to acknowledge the immense contribution to this year's report from our partner Grant Thornton, which is dedicated to serving manufacturers across the country and around the globe. As an audit, tax and advisory firm that works with Canadian exporters across the country, Grant Thornton takes pride in helping manufacturers succeed.

The 2018 survey is based on more than 300 responses from senior manufacturing executives across Canada and conveyed their sense of optimism about the current and future state of exporting.

In recent years, Canadian manufacturers have begun to strengthen their focus on expanding outside of Canada as a strategic means of driving business growth. We are pleased to see the results from this year's report support this trend, as 77 per cent of those surveyed currently export their products or services.

84 per cent of respondents also report their confidence that exports will grow over the next 12 months.

The U.S. remains the top market choice for Canadian exports, despite the recent election of President Donald Trump and uncertainty about existing trade agreements such as NAFTA. 65 per cent of those surveyed report they have not yet adjusted their current export strategy as a result of the election. With trade talks unfolding, 39 per cent report no current impact to their export practices and only seven per cent cite shifting resources to other markets. Paradoxically, 87 per cent of respondents agree they must diversify beyond U.S. borders in order to grow their exports.

Despite the compelling reasons for developing an expansion growth strategy, Canadian manufacturers face or perceive several daunting challenges when it comes to expanding into new markets.

The survey results indicate the biggest obstacles to exporting success include lack of resources and expertise at 74 per cent, followed by currency fluctuations and operational inefficiencies. Failure to have adequate technology that provides the right visibility into their operations and supply chain is hindering the growth potential for Canadian manufacturers looking to export. An overwhelming 60 per cent cite the importance of technology such as supply chain software or ERP to their exporting success.

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 successful expansion strategies aimed at strengthening their reach and establishing themselves as sustainable global market leaders. Deciding whether to expand your operations to new markets is the first step, but determining how to best approach your strategy for expansion and the preparedness it takes to be successful, becomes the more complex and challenging choice.

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.

Dale Kehler
Vice President – Product Services, SYSPRO Canada

Back row, standing, left to right: Robbie Bossin, Dhananjay Chitale, Iain McColl, Ernie Lynch, Michael Klauck, Gerry Yuan, Peter Biro
Front row, seated, left to right: Sue Rauth, Dale Kehler, Sergio Echeverri

Welcome to *Export Insights 2018*, a national report focused on industrial Canadian businesses that export their products and services overseas. This year's edition contains highlights from a survey of more than 300 executives at both exporting and non-exporting businesses and insight from a follow-on roundtable discussion where exporters and government trade experts explored Canada's place in the international market. Along with diving into how companies should respond to the growing threat of protectionism, the report outlines numerous strategies for both new and experienced exporters and offers the latest tips from the trenches from executives who have been exporting for decades.

ROUNDTABLE PARTICIPANTS

PETER BIRO,
President & CEO, Newcon Optik

ROBBIE BOSSIN,
Director of Finance,
Riverside Natural Foods Ltd.

DHANANJAY CHITALE,
Business Development Manager,
Ontario Drive & Gear Ltd.

SERGIO ECHEVERRI,
Trade Commissioner,
Ontario Regional Office,
Global Affairs Canada

DALE KEHLER,
Vice-President, Product Services,
SYSPRO Canada

MICHAEL KLAUCK,
President, CAN-ENG Furnaces
International Limited

ERNIE LYNCH,
President, Lynch Fluid Controls Inc.

IAIN MCCOLL,
President & CEO,
Hibar Systems Limited

SUE RAUTH,
Deputy Director,
Ontario Regional Office,
Global Affairs Canada

GERRY YUAN,
President & CEO, Padsmore Inc.

Missing from photo:

MITCHELL OSAK,
Managing Director,
Strategic Advisory Services,
Grant Thornton LLP

Uncharted WATERS

Trade, Trump and a new age of uncertainty

BY DAVID KENNEDY

For exporters, turbulence has become par for the course. A year since the surprise results of the 2016 U.S. election, the nearly 25-year-old North American Free Trade Agreement is on the ropes, the long-awaited Trans-Pacific Partnership appears dead on arrival and protectionist trade rhetoric is no longer reserved for fringe policymakers.

Across the Atlantic, the United Kingdom continues to negotiate its reluctant split from the European Union, while elsewhere, the emerging economies of countries such as China, India and Brazil continue to build up steam, bringing profound change to the long-standing economic order.

Despite the changing landscape, Canadian exporters aren't running for cover—and they shouldn't be.

That's the consensus of a group of Canadian business leaders, export veterans and government foreign affairs experts who sat down in a Toronto boardroom Sept. 14 to discuss Canada's place in the international market and explore new export strategies as our closest trading partner looks inward.

> Globalization is here now. We're not beholden to any one country... everything's just a ship or a plane away.
>
> *Robbie Bossin, Director of Finance, Riverside Natural Foods Ltd.*

"Globalization is here now," said Robbie Bossin, director of finance at Ontario-based Riverside Foods Ltd. "We're not beholden to any one country... everything's just a ship or a plane away."

Others at the table echoed the sentiment.

"You've got to diversify," Peter Biro, president and CEO of Newcon Optik, said. "The best hedge that you have against what could happen on the export landscape in terms of regulatory barriers, political changes, et cetera—even exchange rate fluctuations—is to be as diversified as you can be."

The U.S. remains a great destination for Canadian goods and services, but it's far from the only one. For ambitious companies, there's always a new market waiting to be tapped. Last year, for instance, the Canadian and U.S. economies together made up approximately 26 per cent of the global market—meaning about three-quarters of the opportunity lies elsewhere.

Exporting is rarely straightforward, and as the veterans at the table noted, it usually takes a realignment of company priorities to find consistent success, but it's no coincidence the reach of Canada's largest and most successful businesses extends well beyond our borders.

As the global economy lurches forward into uncharted waters, both experienced Canadian exporters and businesses that have until now remained at home should be looking ahead to 2018 as a time to reassess their international footprint and pursue new opportunities abroad.

Where we stand

Canada has always been an exporting nation. Last year, exports of goods and services made up approximately 31 per cent of the country's gross domestic product, according to the World Bank, a figure largely in line with export sales since the 2008 recession.

Canada has also always relied very heavily on the U.S. market. While there's been nothing inherently wrong with this close trading relationship historically, the recent U.S. tilt toward protectionism is cause for some alarm, especially considering Canada's reliance on U.S. trade has actually increased over the past five years. As of 2016, Statistics Canada data show shipments to the U.S. accounted for 75 per cent of Canada's total export sales. In 2011 that figure stood at 72 per cent.

Meanwhile, exports to big trading partners such as the EU, Japan, South Korea, Brazil and Australia have decreased over the same time period, even as total export sales have ticked up. As far as diversification goes, Canada's trade relationships with China, Mexico and India all represent bright spots, with Canadian exports to each of those fast-growing markets increasing between 2011 and 2016.

According to the recent *CanadianManufacturing.com Export Insights 2018 Survey*, which was fielded

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> *Peter Biro, President and CEO, Newcon Optik*

> Executive leadership of a company can't simply delegate, walk away and expect it to happen. It can't be: Here's your suitcase, good luck and let us know what contract you signed.
>
> *Michael Klauck,*
> *President, CAN-ENG Furnaces International Ltd.*

by RK Insights and sponsored by SYSPRO Canada, a whopping 98 per cent of exporting companies polled ship to the U.S. The survey identified Mexico as the closest competitor with 42 per cent, followed by the U.K. and China with 32 per cent and 31 per cent, respectively.

Canadian firms are branching out, but looking beyond the U.S. is no easy task.

There are countless reasons Canadian companies look to open up the U.S. market first. Its close proximity and its 350 million consumers are among the top factors. With this in mind, it's no surprise that just eight per cent of the companies polled said they entered a country other than the U.S. as their first international market.

No matter how you look at it, Canada has a lot riding on developments south of the border. And while the past 18 months have taught exporters to expect the unexpected, it still seems far too early to assume the worst for Canada-U.S. relations.

"Plug your nose and proceed"

On the surface, it appears U.S. President Donald Trump has changed the rules of the game.

Dig a little deeper and very little about Canadian trade with the U.S. looks different than it did a year ago.

For now, the experts agreed, there's simply not enough reliable information coming down the pipe about NAFTA talks or any of the new president's "America First" initiatives to act upon.

"The way we've combated [the uncertainty] is just to plug your nose and proceed," Iain McColl, president and CEO of Hibar Systems Ltd. said. "We just have to let the rhetoric fly and see where it lands."

The ongoing NAFTA talks may uproot the agreement—as Trump has long threatened—but they seem just as likely to slightly update the status quo. Despite the bluster from the White House, Congress has shown little interest in moving away from free trade.

With little to go on but speculation, Biro said it's not possible to create a strategy to adapt to the changes. No one knows what the trade landscape will look like by the end of the year, he added.

> We have trade commissions in 160 countries and they can really help new exporters with information on the market, market intelligence and local culture.”
>
> *Sergio Echeverri,*
> *Trade Commissioner, Ontario Regional Office, Global Affair Canada*

“It doesn’t mean that you shouldn’t be proactive, but actually suggesting with any seriousness that you’ve got a strategy to meet the challenges I think is foolhardy because the truth is we don’t know.”

For Biro, the only true solution is to penetrate new markets in order to reduce reliance on the U.S.

According to the Export Insights survey, a large percentage of companies feel likewise. 87 per cent of companies polled identified finding export markets beyond the U.S. as important, compared to just 13 per cent that don’t see it as a priority.

Diversifying is good business sense even if it weren’t a time of crisis.

As luck would have it, with a new trade agreement set to benefit Canadian exporters to Europe and strong growth in emerging markets, opportunities beyond the U.S. have rarely looked so appealing.

Canada’s moment

Since the events of last year, Ottawa couldn’t have been much clearer about its position on free trade. Canada remains open for business.

In September, the Comprehensive Economic and Trade Agreement—the long-awaited trade deal between Canada and the European Union—came into force, eliminating 98 per cent of tariffs on Canadian goods entering any of the trade bloc’s 28 member states. A further one per cent of the market will be tariff-free in the coming years.

The landmark agreement is an obvious boon for companies shipping to Canada’s second-largest export market and companies are largely bullish on the prospects. 31 per cent of *Export Insights* respondents expect the deal to increase their European sales, versus just one per cent that anticipate a sales decline; the majority are uncertain or expect no impact.

Along with increasing exports to Canada’s traditional trading partners in Western Europe, Mitchell Osak, managing director of Strategic Advisory Services at Grant Thornton LLP expects the trade deal to allow Canadian firms to make a name for themselves in Europe’s emerging economies.

“Many of those eastern EU markets are growing substantially,”

article continues on page 9

Top Global Markets by Per Cent of World GDP

Source: World Development Indicators, The World Bank

> China used to be the manufacturer for the world of low-cost and some may argue low-quality widgets, but that's not the case today. They're advancing [by] leaps and bounds.
>
> *Iain McColl,*
> *President and CEO, Hibar Systems Ltd.*

he said in an interview following the roundtable. "Countries like Poland [and] Romania are large markets that are growing wealthier, more assertive in the world and benefitting from high levels of investment."

Much of Eastern Europe has also benefited from investments made by other European countries, Osak said, improving the region's manufacturing sophistication—and likely making way for a number of high-value Canadian exports.

"Also, there are deep bonds between Eastern Europe and Canada, and this fosters relationships," he added. "True competitiveness and market familiarity is a medium-term play and we are starting to see right now the medium term attractiveness of Eastern Europe for Canadian manufacturers and that has nothing to do with what's happening in the U.S. right now. It's not an either or, it's all of the above."

At the roundtable—convened a week before CETA came into force—most exporters in the room expressed enthusiasm about what the deal will do for their businesses.

"We're very much looking forward to the CETA agreement being completed and opening up more trade in Europe," Ernie Lynch, president of Mississauga, Ont.-based Lynch Fluid Controls Inc., said.

While Lynch and others are optimistic about the deal, they admitted it will take some time before they're able to fully benefit from the new regulations. Especially for sectors in which the tariff changes aren't obvious, even firms that have been exporting for decades will need to study the agreement closely to see how they can best take advantage.

They won't necessarily be in it alone, however.

Sue Rauth, deputy director at Global Affairs Canada's Ontario Regional Office, said this uncertainty about CETA is nothing new. Ahead of the deal's implementation, she said the department and the Trade Commissioner Service was drilling down into the more gritty details of the deal and preparing material aimed at helping Canadian businesses understand the opportunity.

"It's happened—it's done," she said, "but we have not caught up to the place yet where we can really flow all that opportunity information to businesses yet, but we will get there."

Among the long list of sectors expected to benefit from the deal are agriculture and agri-food, automotive, forestry, pharmaceuticals and seafood.

Going farther afield

There have always been a few markets that every Canadian exporter wants a piece of. Today, that market's China.

As Iain McColl, president and CEO of Hibar Systems Ltd. put it at the roundtable: "It's where the fish are.

"China used to be the manufacturer for the world of low-cost and some may argue low-quality widgets," he said. "But that's not the case today. They're advancing [by] leaps and bounds. They're using North American-trained engineers, they've got European- and Japanese-made machine tools, they're using the same technologies that we're using."

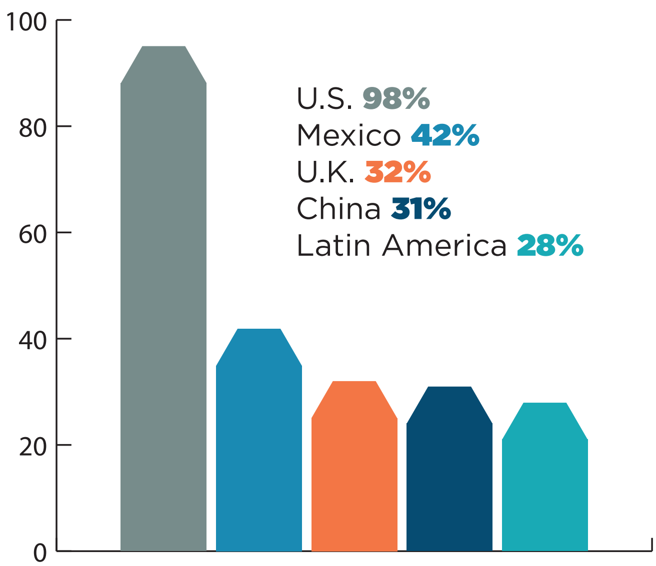
For Hibar, a maker of automated manufacturing equipment and assembly lines, China's transition from labour-intensive manufacturing processes to automated systems and eventually Industry 4.0, represents an excellent opportunity, just as it does for countless other companies—from aerospace parts suppliers and cleantech firms, to miners and toy makers.

When pursuing new markets, size matters. There's no better example of that than the attention both the U.S. and Chinese markets command. While a simple look at the size of a country's economy is an excellent place to start the search for a new target market, it certainly won't tell the whole story.

The next section will dive into strategies for identifying high-potential new markets and strategies for getting through the door.

Export Insights 2017 Survey Results

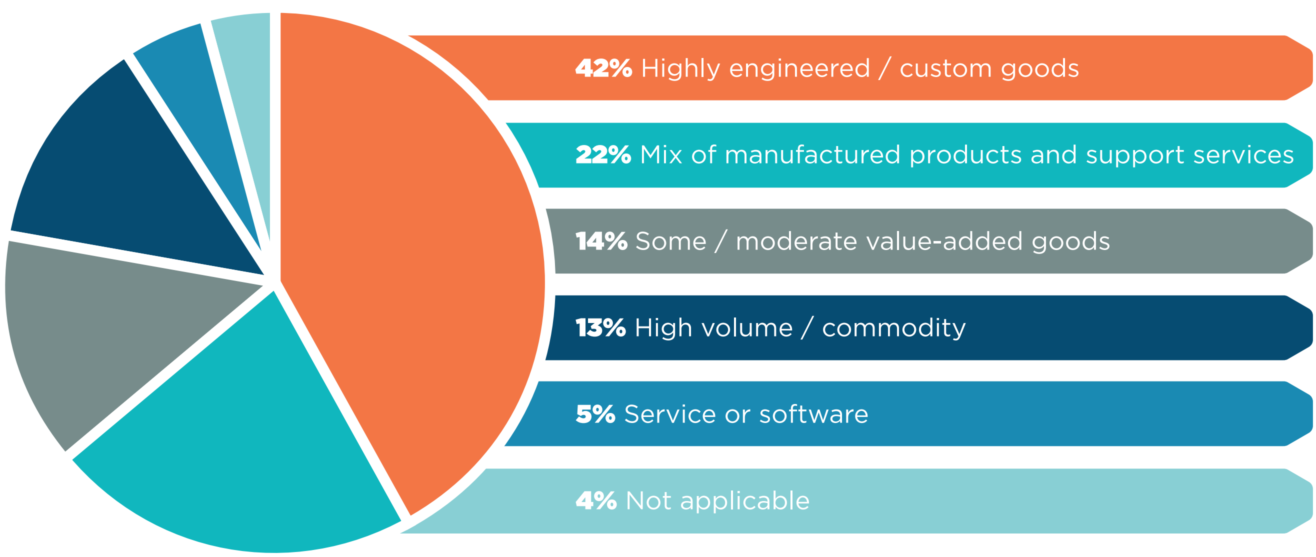
In July and August, ***CanadianManufacturing.com*** polled 343 manufacturing and industrial businesses to gauge how Canadian companies are branching out into international markets and identify some of the biggest exporting challenges both at home and abroad. More than three-quarters of the respondents self-identified as exporters in the online survey, which was fielded by RK Insights. They shared insight about how they built supply chains and customers overseas as well as outlined what markets and strategies they plan to employ in the future.



92%
of respondents began exporting to the U.S. before entering other markets.

Just
42%
of respondents have a comprehensive exporting strategy.

What exporters are selling:

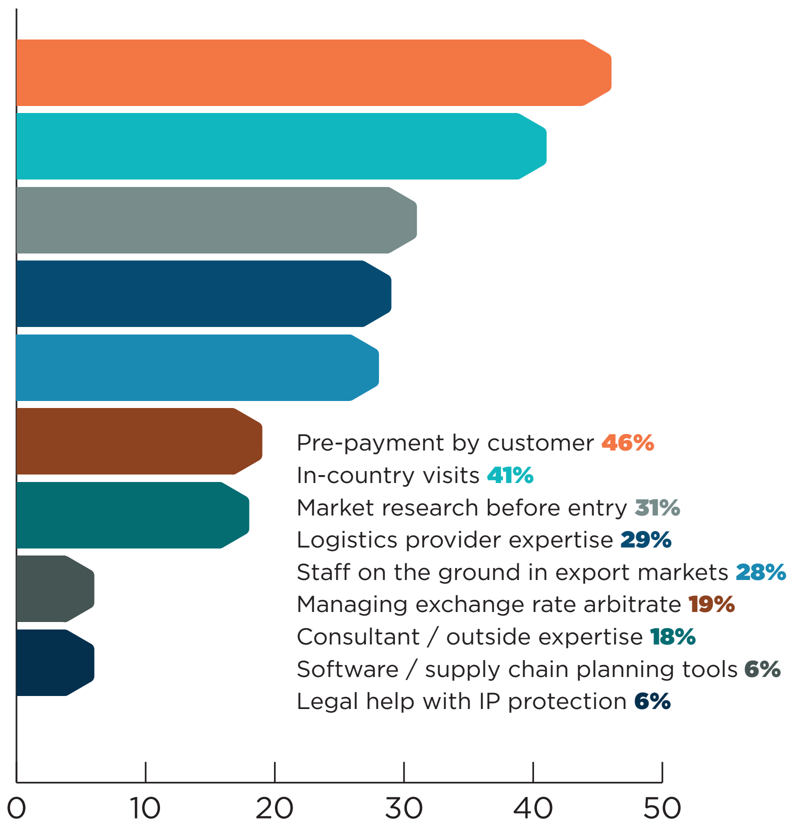


Companies face a diverse set of challenges when exporting. *Export Insights* respondents identified **currency fluctuations** (29%) as the largest single challenge. **Transportation, logistics and supply chain issues** (27%) were cited as another major issue when shipping overseas, followed by **difficulties competing with local market players** (22%).

While trade barriers have been falling worldwide, another 20% of respondents pointed to **protectionism** and **tariffs** as key challenges to overcome. A **lack of staff** (18%) and **low demand** (16%) for products or services were other major obstacles exporters encountered doing business abroad.

Despite the challenges involved, only 9% of respondents say they have experienced a **major exporting failure** over the past two years, meaning that while there are hurdles to jump, most Canadian companies are up to the challenge.

How respondents minimize risks when exporting



The Trump Factor

Only

13%

of responents have or plan to adjust their export strategy because of the election of U.S. President Donald Trump.

But only

8%

expect their exports to the U.S. to grow under the new administration.

87%

say it's important for their company to look for export markets beyond the U.S.

“Where there’s no information there’s speculation”

Know your market, everything else is secondary

From senior management and sales staff, to workers on the shop floor, ditching the stay-at-home attitude requires a radical realignment of company priorities.

The experts around the table Sept. 14 see the drive to get out of Canada and into world markets as something that’s wired into a firm’s DNA.

“Companies that are looking to begin exporting have to understand the change management aspect of it… the culture of the company needs to be focused on that,” Dale Kehler, vice-president of Product Services at SYSPRO Canada said.

It’s a shift that requires all levels of the organization, even if the orders are coming from the top.

“Executive leadership of a company can’t simply delegate, walk away and expect it to happen,” Michael Klauck, president of CAN-ENG Furnaces International Ltd., said. “It can’t be: Here’s your suitcase, good luck and let us know what contract you signed.”

Still, once a company lands its first international client, battles through the red tape at the border, packs up its inaugural shipment and tracks it to its destination, exporting can take on a life of its own.

It’s not surprising that once the learning curve is out of the way, more international deals follow.

In other words, companies that learn to export, tend to export a lot. According to the *Export Insights* survey, of companies that export, nearly half get more than 50 per cent

of their revenue from abroad and 24 per cent log export sales accounting for more than 70 per cent of their total revenue.

The tough part is getting started.

Finding the help you need

With no previous experience, the prospect of shipping products or services overseas can be daunting—the equivalent of jumping from A-Z with nothing to cling to in between.

You shouldn't expect to learn it all alone.

"You can't," Peter Biro said. "You're running a business, you're meeting payroll, you're dealing with your bank, you're dealing with your landlord. You need professional advice on the accounting side, why not the export side?"

Ernie Lynch was quick to concur.

Getting product across the border involves a lot more than calling up a parcel delivery company, he said, adding that taking advantage of government support is a valuable early step.

"It's a lot easier than stubbing your toe every step of the way," Lynch said.

He pointed to the New Exporters to Border States, or NEBS program, which is designed for small and medium businesses in Ontario looking to ship to the U.S. as one route.

Sue Rauth echoed the sentiment. She said that in many cases early-stage exporters need help with key stepping stones, such as setting out a clear strategy.

"In almost 80 per cent of the cases, nobody has anything written down as to what they want to do internationally, or even domestically," she said.

The entrepreneur may have formed a strategy in his or her head, she added, but getting it down on paper is one of the first steps to executing it.

Sergio Echeverri, a trade commissioner at Global Affair's Ontario Regional Office, pointed to trade commissioners as an excellent resource that can help businesses get a foot in the door.

"We have trade commissions in 160 countries and they can really help new exporters with information on the market, market intelligence, local culture and things like that," he said.

A number of other government-affiliated organizations, including Export Development Canada and Business Development Bank of Canada can also offer early assistance in identifying high-potential target markets for your business, as well as provide financing help down the road. Many provincial, regional and municipal governments also offer programs to promote and assist exporters.

Industry or trade associations are another excellent source of information.

Meanwhile, companies looking for advice specifically catered to their business can hire consultants to do the heavy lifting, such as what regulatory hurdles would stand in the way and how to best cater products or services to customers in specific regions.

You shouldn't be shy about paying for expert advice, Biro said.

"Don't wait till you can afford it to pay for it. You should be paying for it when you can't afford it—it should be treated almost as an initial capital investment," he said.

Consultancy firms and export specialists are available across Canada, though companies can also reach out to local advisors in the markets they're looking to penetrate.

Pack your suitcase

After a careful arms-length analysis, nothing replaces sussing out an opportunity firsthand.

"Where there's no information there's speculation," Lynch said.

According to the experts, it's invaluable to go get a feel for a market, meet potential customers and partners face-to-face and hammer out details with gatekeepers such as foreign government officials you will likely need to work with in order to gain access to a market.

Once you establish a link between senior management and your prospective market, setting up a permanent or semi-permanent presence is vital.

"Unless you have boots on the ground, you can't make it a success, that's my own experience," said Dhananjay Chitale, business development manager at Ontario Drive & Gear Ltd.

Chitale also stressed the need for excellent communications between your home base and the target market. Whether it's a single trade rep or a satellite office, the flow of information needs to be consistent.

A "boots on the ground" presence is also likely to give your company some insight into how your competition conducts business in the area, allowing you to formulate ways to improve on their processes or better cater your product to customers in the region.

Different approaches

There's no right way to move into a new market, but there are plenty of wrong ways.

The target country, the type of product or service you're selling and the scale of your business all play a role in the decision, but ultimately, a company needs to decide for itself what strategy works best.

Meanwhile, what works for one exporting business, might not work for another.

Lynch Fluid Controls, for instance, recently set up a new facility in the U.S. to handle shipments from its Canadian manufacturing plant, mainly because it didn't want to rely on a third-party logistics provider, better known as a 3PL.

"We wanted to have our own people handling our own goods without any interference from the states happening," Ernie Lynch said. "We're very tight on quality control so if our own people are trained the way we want them to be trained then there's a higher probability of success in doing it that way."

While the hydraulic equipment manufacturer has been shipping product to the U.S. for years, the company decided it was time to establish a bricks and mortar presence south of the border, partly as a result of the changing political climate.

Riverside Natural Foods, meanwhile, has taken another route.

A relatively young company, which makes allergen-free snacks, Riverside didn't consider setting up its own facilities outside of Canada at this stage in its development. The company makes all its products in Vaughan, Ont. and ships them to third-party warehouses in the U.S.

> We're very tight on quality control so if our own people are trained the way we want them to be trained then there's a higher probability of success in doing it that way.
>
> *Ernie Lynch,*
> *President, Lynch Fluid Controls Inc.*

and Europe for distribution.

"When it goes out the door it's already in a wrapped pallet and our third-party provider really has to manage the material handling and shipment end of it," Robbie Bossin said.

"It's new to us, we're gaining confidence," he added. "We've actually learned a lot from them on our own supply chain and warehouse management as far as how they do things that we're able to install in our own plant."

The two Canadian exporters are taking very different approaches, but each have found success with a model that works for them.

Contingency planning

In exporting, there's simply no way to plan for all eventualities.

Mitchell Osak pointed to one startling example: last year the world's seventh-largest logistics provider, Hanjin Shipping Co. went bankrupt, suddenly stranding its ships, sailors and cargo.

"There were tens of millions of dollars of goods sitting outside ports around the world," Osak said.

With significant added costs to get products off those stranded ships, all of a sudden companies' profit margins on those shipments were shot and some products, such as foodstuffs, were often an immediate loss.

"It's this whole idea of ripple effects," he added. "One big provider being shut down, and then it's a bunch of questions."

Not all failures are quite so spectacular, but the fact remains, exporters must be prepared for all outcomes—from supply chain disruptions, to wild currency fluctuations and swings in customer demand.

Shipping to a large number of markets is one vital hedge against these sorts of issues.

Michael Klauck outlined another: product diversity.

For several years, the North American and European steel industries have been struggling in the wake of cheap Chinese imports. The tough climate has also been bad news for CAN-ENG, which has historically been a major furnace supplier to the steel industry. Orders, unsurprisingly, have dried up.

Still, with its furnaces adapted to meeting needs in the aerospace and automotive industry, the company has adjusted well to the steel industry headwinds. The diverse product lineup across several industries has kept the company on its feet, Klauck said.

"Without that diversification we'd be dead in the water," he said. "Right now the steel industry is completely dead for us."

There may not always be a perfect solution to a crisis, but by planning for the worst-case scenario, exporters can often mitigate damage and create fresh opportunities.

The next section will explore the importance of optimizing your processes to maximize your competitiveness and minimize risk.

84%

of respondents are confident their exports will grow over the next 12 months.

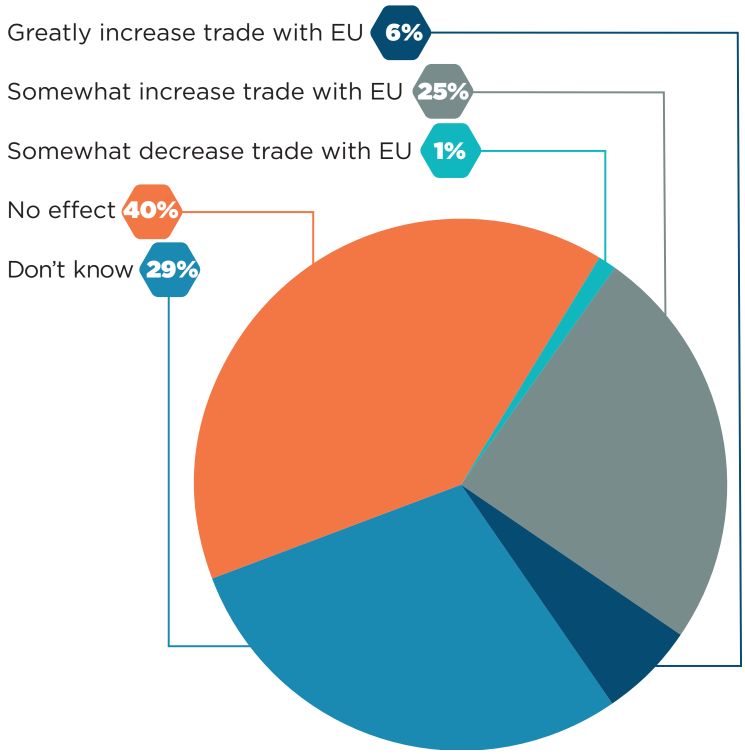
48%

of respondents plan to travel to potential new markets in the next year to pursue export opportunities.

33%

plan to enter a new market within the next two years

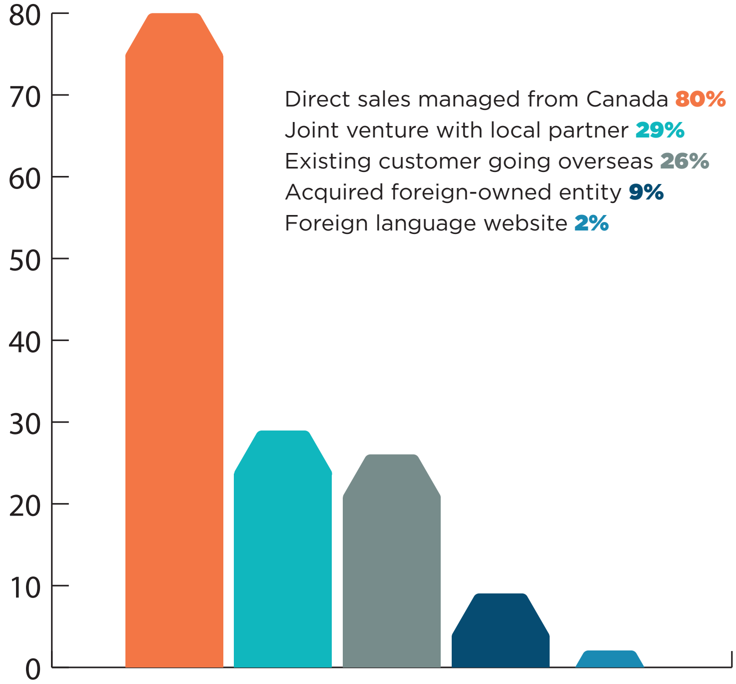
Companies are divided on how the CETA trade deal will impact their exports to Europe:



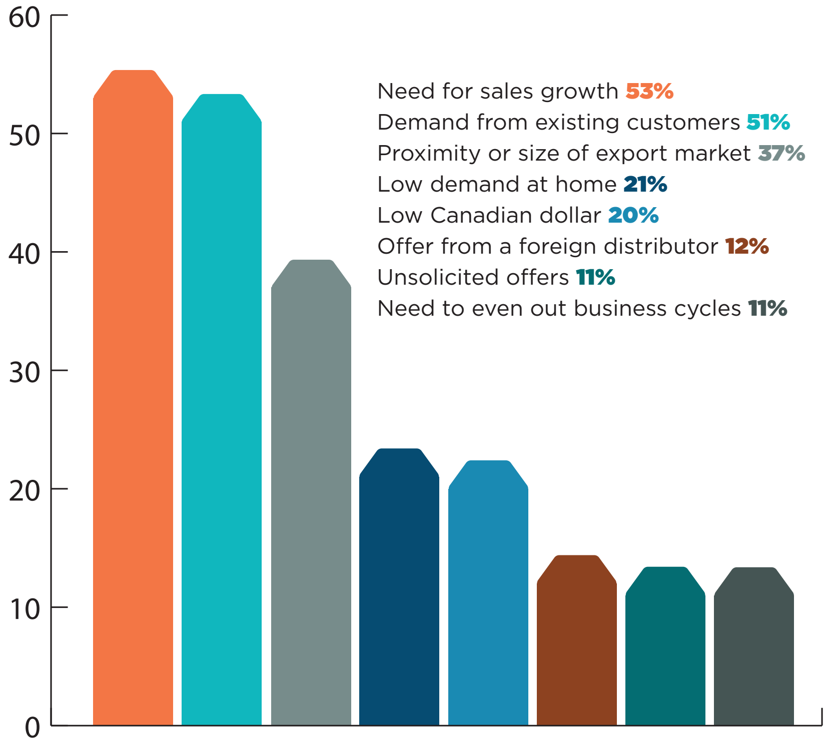
Canadian exporters are looking to grow their businesses with **non-traditional trading partners** in the European Union. The biggest target (36%) for companies planning to push into new markets in the next 24 months are EU countries other than Canada's traditional EU trading partners. While some businesses are still working to access **Germany** (14%), the **U.K.** (12%) and **France** (12%) more are now looking to countries like Poland, Romania and the Czech Republic.

Beyond Europe, Asia is the biggest draw for growing exporters. 18% of companies planning to move into new markets have their sights set on **China.** Other significant targets include **India** (14%) the **Middle East** (10%) and **Japan** (6%), while 23% of businesses are looking at **other Asian markets**. Meanwhile, exporters are also aiming to enter **Latin America** (23%) and **Africa** (12%).

How exporters penetrate new markets:



Top reasons respondents began exporting



74%

of companies say they lack staff with the proper export expertise

Just

45%

of exporters say they did enough upfront research before diving into a new export market

Only

42%

of respondents have a dedicated export manager on staff

Building a better mousetrap

Finding your competitive edge

Unique products traverse borders—whether they're highly engineered automation systems or granola bars guaranteed to be free of allergens.

Asked to cite the contributing factors to their success, 61 per cent of *Export Insights* respondents singled out having a unique product as one of the key differentiators. Another 53 per cent pointed to the superior quality of their products when compared to competitors, while half said a competitive price was a major factor.

Put another way, the best way to ensure success is to do it better for cheaper.

"The only way to really combat [the Buy American sentiment], especially if you're getting into government contracts and that sort of thing, is just to have a better mousetrap so they don't have a choice, they have to buy Canadian," Iain McColl of Hibar said.

It's a sentiment that applies the world over and is the reason successful Canadian exporters tend to be leaders in their respective fields.

Focusing on the home front

For many exporters, getting their products to customers is just the final piece of the puzzle. The real battle to improve margins, create new innovative products and win over new customers starts at home.

According to the *Export Insights* survey, one-third of exporters are looking to add capacity to their operations as a way to boost exports over the next 12 months, while 28 per cent plan to buy or upgrade shop machinery.

Capital investments can sting in

> "Everything comes with a Bluetooth connector now—whether it's a scale, a refrigeration unit, a calibration tool on the shop floor—everything is connected."
>
> *Dale Kehler,*
> *Vice-President of Product Services, SYSPRO Canada*

the short-term, but set businesses up for success.

"In the last couple of years we have new capabilities, especially in the sense of making gears better, quieter [and we've added] new software that can design gearboxes to suit electric drivetrains," ODG's Dhananjay Chitale said.

In Ontario, and other jurisdictions with relatively high electricity costs, new high-efficiency machinery often pays for itself relatively quickly, cutting long-term costs and improving competitiveness.

ODG, an auto supplier and utility vehicle manufacturer, has also invested in automation as a way to trim labour costs. Chitale expects more developments on this front as technology advances, but says recent investments have pushed its integration of automation to the "extent possible."

When it comes to cutting costs, collecting valuable data and optimizing your facility, automated systems have a lot to offer.

"Everything comes with a Bluetooth connector now—whether it's a scale, a refrigeration unit, a calibration tool on the shop floor—everything is connected," Dale Kehler said.

Many of the other company heads around the table said they're starting to make use of data, but admit there's plenty of room for improvement.

Beyond the shop floor, leading companies are also experimenting with new software to help improve aging, often homegrown systems used for activities such as sales, logistics and enterprise planning.

> "[Canada's strong reputation] is intrinsically there, I think we need to do more to leverage it on a wider basis."
>
> *Sue Rauth,*
> *Deputy Director, Ontario Regional Office, Global Affairs Canada*

Customer relationship management, or CRM software, is one particular area of interest for exporters, who often juggle relationships across the globe. Though most of the companies represented at the roundtable were beginning to transition away from homegrown systems and invest in more advanced products, the executives said it's been a slow transition due to software limitations and employee buy-in. Despite the slow progress, the experts said integrating a foolproof sales system ensures orders aren't forgotten or relationships lost because of situations as mundane as an employee calling in sick or going on vacation.

Meanwhile, with so many different factors that go into costing products or services, technology can also ensure companies identify all the proper parameters that will impact their margins.

"Having good systems in place to support that information is really important because you're making decisions and you're hedging bets on that, so you've got to trust what you're doing," Kehler said.

Holding onto what's yours

The rewards of exporting don't come without a certain amount of added risk.

When it comes to intellectual property, an area of particular concern for companies that have invested a lot of time and money into their products, doing business abroad can be conflicting. On the one hand, it offers access to countless new customers; on the other, it often means sending products to areas of the world with slippery definitions of IP and few penalties for patent infringers.

For instance, Iain McColl at Hibar—a company that does business in China and a number of other countries with fast-growing economies—said the company has been hit a number of times by IP theft.

"We've had trademarks infringed on, we've had blatant copies of our machinery," he said.

Though McColl joked that poorly made knockoffs may have actually made the company money by driving customers that want the real deal to Hibar's doors, he added that a lack of respect for trademarks has driven the company to largely steer clear of patents.

"As soon as you issue for a patent, you're giving away your soul," McColl added.

Newcon Optik, which makes defence industry and policing equipment such as laser range finders and night vision systems, takes a similar approach.

"I operate on the assumption that things are going to be known and they're going to be known by the very people you don't want them to be known by," Peter Biro said.

Newcon Optik's IP strategy does not include patents, though Biro was quick to note that he wouldn't necessarily counsel other businesses to avoid trademarks altogether, adding that it all depends on what industry and markets a company operates in.

Leveraging the Canadian brand

Canadian companies aren't often aggressive self-promoters.

Modesty may be a virtue, but in business, it often holds Canadian firms back, particularly in areas of the world where the Made in Canada brand carries a lot of weight.

As a country, Canada has an excellent image around the world, said Gerry Yuan, president and CEO of Padsmore Inc., a woodworking industry supplier.

"I think there's lots of potential," Yuan said, adding that companies should leverage their Canadian origins to help them win new business. Particularly in China, one of the markets to which Padsmore exports, he said the Canadian flag is really looked up to.

Sue Rauth agreed. She said that while individual companies certainly need to do more to leverage Canada's strong reputation, the Canadian government also needs to better promote its homegrown businesses.

"It's intrinsically there, I think we need to do more to leverage it on a wider basis," she said, pointing to Germany as a strong example of a country that promotes its image as a leader in cutting-edge technologies.

Rauth also said the Canadian government is in the process of reevaluating the Trade Commissioner

> "As soon as you issue for a patent, you're giving away your soul."

Service—a move that could lead to trade commissioners having more freedom to promote Canadian businesses abroad.

Though the government trade reps are excellent gatekeepers in countries around the world, one criticism of the service and the federal government in general is that it's overly cautious when it comes to business ethics. At times, critics say, Ottawa's reluctance to champion its own companies leads to lost tenders or trade sanction issues. An end to this hesitance could provide a leg up for Canadian companies in highly competitive fields.

Streamlining shipments

From bulk carriers transiting the Panama Canal or Strait of Malacca, to last-mile delivery trucks dropping products in your customers' hands, supply chains have never been more complicated. But with the advent of real-time tracking—you can pinpoint the precise location of most cargo vessels afloat at the click of a button—international logistics has never been quite so manageable.

"It's getting more complex, but it's better than it's ever been, in terms of tractability, knowing where your goods are and scheduling," Iain McColl said.

27 per cent of *Export Insights* respondents cited logistical or supply chain issues as an exporting challenge, but the experts think technology has led to fewer and fewer reasons to stress about transportation. It's all about taking advantage of available tools and finding the right partners.

Tracking, for instance, Ernie Lynch said, not only allows his employees to quickly troubleshoot a problem with a shipment, it eliminates time-consuming conversations with customers.

"Giving the customer the tracking number is actually a savings for any company," he said, adding that instead of dialing in to check on shipments, customers can simply plug in a tracking number and locate the shipment for themselves.

"The exporter that doesn't give out the number isn't doing their customer any good," he added.

For Hibar or CAN-ENG, or any company transporting huge pieces of equipment in dozens of shipping containers, tracking can also provide a certain peace of mind that high-value products are where they should be.

With the right logistics partners and proper internal inventory management—which often relies on lean manufacturing practices—modern tools are enabling exporters to set up reliable supply chains while focusing the lion's share of their efforts on their core competencies.

"Worry about what you do well," Robbie Bossin said. "If you manufacture, worry about manufacturing, if you find a partner that you trust that can handle the logistics and warehousing, it's not a huge cost."

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 during July and August 2017 and drew more than 300 responses.

The survey was conducted by RK Insights, a third-party research firm based in Toronto; 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, 77 per cent are current exporters. The 23 per cent that reported they don't currently export shared insight on the reasons they prefer to keep their business focused on 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.

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