HC117
.B7
C6
no.1
c. 2 aa

y, Science and
ology Canada

Industrie, Sciences et
Technologie Canada

IC

COMPETITIVENESS IN THE '90s

Export to the U.S.

COMPANY CASE STUDIES FROM B.C.

Canada

Competitiveness in the '90s

Table of Contents

Foreword by Industry, Science and Technology Canada 3
Clearly Canadian Beverage Corporation 5
Dynapro Systems Inc. 7
Ebco Industries Ltd. 9
Emperor Mushroom Industries Inc. 11
Inkameep Vineyards Ltd. 13
Med*ex Diagnostics of Canada Inc. 15
Nexus Engineering Corp. 17
Norwood Packaging Ltd. 19
Pamap Technologies Corporation 21
Pimlico Apparel Ltd. 23
RSF Energy Ltd. 25
Sonax Acoustics Ltd. 27
Conclusion 29

INDUSTRY, SCIENCE AND
TECHNOLOGY CANADA
LIBRARY

JUL 28 1993
BYAL
BIBLIOTHÈQUE
INDUSTRIE, SCIENCES ET
TECHNOLOGIE CANADA

Company Case Studies From B.C.
Prepared by Barbara L. Hodgins for
Industry, Science and Technology Canada
British Columbia

March, 1991

Publié aussi en français

EXPORT TO THE U.S.

Competitiveness in the '90s

Foreword

This is the first of five sets of case studies undertaken by Industry, Science and Technology Canada, British Columbia to look at the strategies employed by B.C. companies to make themselves more competitive in the marketplace. While this set looks at strategies directed at export to the U.S., others in this series will look at environmental strategy, technology, human resources and financing.

As the implementation of the Canada-United States Free Trade Agreement (FTA) enters its third year, we have identified some of the British Columbia companies that are exporting under this new regime, and learned the reasons for their individual success.

What follows are the stories of twelve firms that represent a broad range of experience in the U.S. market. While not a scientific sample, they come from a cross-section of economic sectors in the province. Most have annual sales in the range of $5-20 million. Four of the twelve are based at locations outside the Lower Mainland.

Among the primary industries represented is agriculture, while the secondary manufacturing industries include furniture, home heat, clothing, wine, beverages, medical equipment, computer software and hardware, personal care products, and cable television equipment. There are firms which have been forced to make dramatic adjustments under the terms of the FTA, and others that have been quite unaffected.

Their strategies for success have also varied from finding/creating a market niche to developing a strategic alliance, becoming a technological leader, and different combinations of these approaches. Some firms have tackled the United States market only after establishing themselves at home, but others – it depends on the industry – have directed their efforts from the outset to what they regard as the "continental market".

In the end, these are intensely personal stories as the people involved, their individual training and experience, have greatly shaped the direction of the companies. We are grateful to them for sharing this information and for their own insights into the ways British Columbian and Canadian companies can succeed in the United States market.

Victor Lotto

Victor Lotto
Executive Director
Industry, Science and Technology Canada
British Columbia

March, 1991

CLEARLY CANADIAN

Clearly Canadian Beverage Corporation

Selling sparkling flavoured mineral water bottled under the label "Clearly Canadian" has brought this Vancouver-based company, within only three years of starting business, to annual sales of $20 million for the year ended June, 1990. Fully 85% of the product is sold in the United States, in what is called the market for "new age" beverages, which bridges the bottled water and soft drink markets.

The firm employs 28 people, including 2 in Toronto and 3 in the Okanagan. The water itself comes from northern Ontario and the Okanagan; following purification it is shipped to bottling plants in Kelowna and Toronto in Canada, or exported by tanker to others in Seattle, Sacramento, Denver, and St. Louis. There the water is purified again and flavour concentrates are added.

Fast Track

Only six months elapsed from the start-up of the International Beverage Corporation (the original name of the firm) until the first deliveries of the Clearly Canadian product in the North American market. According to Glen Foreman, Vice President Sales and Marketing, this "fast track" process was only possible because of the extensive market research that had been done beforehand by Douglas Mason, Chairman, President and CEO. No doubt it also helped that two members of the senior management had lengthy prior experience in the beverage industry.

A five-man team led by Mason and Foreman formulated and implemented the strategic plan which took the form of a "decision-tree" based on the research findings. The aim was twofold: to develop a premium product with a Canadian identity that would target a market niche; and to align with aggressive, well-financed distributors.

Glen Foreman points out that the relationship with distributors has been key to the company's success. "Our policy is not to be greedy", he says. As the manufacturer, Clearly Canadian takes its profit from the water and the flavour concentrates, and leaves a good profit margin for the distributors. Coupled with this financial incentive, Clearly Canadian leaves the distributors free to market the product as they see fit, apart from "directing traffic" and approving all advertising materials.

Premium Product

Although the company faced stiff competition, Clearly Canadian recognized a market opportunity that would capitalize on Canada's image of having clean pure water drawn from remote uncontaminated sources. Particularly in California, the market for flavoured mineral water was already well developed with retailers allotting more shelf space to this "new age" product than to traditional soft drinks. From the standpoint of the new company, this meant that the "entry cost" was low compared to other areas, including at home in Canada, where such market awareness would have to be promoted.

Creation of the product itself began with the identification of "correct" sources of water. But Clearly Canadian also pioneered the ozone purification processes to be used – again an innovation – both before and after tanker shipment. Testing procedures are also state-of the-art and every production run is subjected to chemical analysis. The flavour concentrates are derived from fruit extracts and are modified to conform with

the results of taste panels. Considerable creativity and care went into the bottle design and the first print ads (with their snowy mountain backdrop and appetizing larger-than-life-size fruits).

Glen Foreman acknowledges that access to the United States market required an investment of time and money. The U.S. Food and Drug Administration (FDA) had to approve the product, and of course customs and excise procedures had to be worked out. But now, with Clearly Canadian selling in 30 states and plans underway to include the remaining states during 1991, he finds that doing business in the two countries is "essentially the same". Except, perhaps, that in his experience, business decisions are taken more readily, more quickly and positively, in the United States. He shields his distributors from the international trade aspects by dealing with them in U.S. dollars.

Aggressive Approach

In order to finance this export initiative, the International Beverage Corporation went to the equity market and issued more than 10 million shares to raise sufficient capital. The company's stock is now publicly traded in both Canada and the United States, and Glen Foreman proudly notes its substantial rise in price.

Steady profitable growth has enabled the company to expand its sales into Japan and Europe; there again Clearly Canadian has chosen strong distributors and ensured sufficient profitability for everyone in the system. New flavours are about to be added to the product line in North America. Far from being deterred by competition, the dictum of Clearly Canadian is instead to "be aggressive". Built upon a solid foundation of market research, this approach has certainly paid off for the company in capturing a share of a fast-growing multi-billion dollar world market.

Dynapro Systems Inc.

Since 1976, when Dynapro Systems (DSI) started out, this Vancouver company has developed four generations of its first product, software and hardware for industrial process control, and diversified the product line. Simply staying in business in the fast-paced, highly competitive computer industry is considered a mark of success, but DSI has grown to the point where today the company has sales in the range of $20 million annually and employs 140 people (including 50 in research and development). Fully 100% of sales are exported – although about one-quarter make their way back into Canada through imports.

Formed by Dr. Karl Brackhaus, and two partners who have since left the firm, DSI faced a steep learning curve, not so much to do with the technology – for the founders all were engineers – but in terms of marketing the product.

Strategic Alliance

DSI recognized a need for an improved "operator- machine interface" for industrial control systems and, in 1979, produced an effective alternative to the conventional hard-wired push- button-and-light control panel. Called the GRAFIX Terminal, it was the first colour, industrial graphics display system based on a microprocessor ever to hit the market.

DSI did not keep the technological edge for very long, however, and soon a large United States manufacturer was aggressively advertising a similar product. Through the sales grapevine, DSI learned that another large U.S. company, Allen-Bradley, was interested in selling such a product but needed two or three more years to develop and produce its own. Karl Brackhaus observed that "big companies can't do everything well and may not be able to respond quickly when new technology presents itself". He recognized and seized this as a unique opportunity for an alliance: DSI could do the design and manufacturing and Allen-Bradley, with its huge network, the marketing and distribution.

A management consulting firm helped DSI work out the strategy to win the alliance. It took six months to get on the short list but by 1982 they had a handshake and, a year later, a deal whereby Allen-Bradley acquired 25% equity in the company. Another factor in the Canadian company's favour was that there were Allen-Bradley insiders also promoting the alliance.

But the negotiations were tough and DSI was "making it up as we went along." The firm had to give up the Canadian identity of its product and, as part of the agreement, was required to re-design the product and adhere to much stricter quality control requirements. Although by no means a jobber for Allen-Bradley because the inherent technology is DSI's, the company had to meet formal specifications. Through this close association, Allen-Bradley became a role model and DSI was able "to grow up fast".

Global Inputs

The re-designed GRAFIX system in turn became the ADVISOR and several successors, including the ADVISOR PC, an integrated sofware/hardware product that turns an IBM PC/AT into a full-featured industrial process monitoring and control system.

Having experienced the export business both before and after the Free Trade Agreement, Karl Brackhaus notes one very minor issue –

that for manufacturers like DSI there is now more paperwork, not less, because you have to prove the point of origin of all of the materials. "In a global economy with international sourcing, that gets messy", he comments.

But there is simply no alternative to the American market in the field of high technology. To think that a company could restrict itself to the domestic market is "a recipe for failure", he believes, owing to the much higher cost required to service our "long skinny economy". By comparison, the market to the south includes major centres that are even within the same time zone, with a business culture very similar to Canada's.

Distribution

The challenge is to choose the right distribution channel for the product. Here he cites the thesis of a local marketing consultant – consistent with DSI's experience – who maintains that because distribution networks are so difficult to come by, it is easier to establish a relationship with a large company that already has one than to attempt the distribution alone. This approach also provides other advantages for manufacturers who either lack marketing expertise or are naturally more oriented toward technology.

Through its alliance with Allen-Bradley, DSI expects to continue to fill the market niche it has carved out for itself with future product families.

Ebco Industries Ltd.

Run by the twin brothers Hugo and Helmut Eppich, EBCO Industries is a group of Vancouver companies that manufacture electronics, heavy equipment used in the mining and petroleum sectors, and aircraft parts. Combined, these companies employ about 900 people.

While overall exports account for about 50 % of sales, Epic Data, the company producing electronics, exports 95% of its $26 million annual sales, mainly to the United States. Its leading product is the Epic Data collection system, a computer terminal with a micro-processor and customized systems software that is designed for the factory floor.

Building High Technology

When EBCO Industries started out, Vancouver was a lumber town which, according to Helmut Eppich, was held in poor regard by Americans who favoured suppliers in their own country and would not consider a Vancouver manufacturer unless there was nowhere else to obtain the product. By contrast, the city has now established a worldwide reputation as one of the best high technology centres, and this has changed the way U.S. customers think about Canadian and Vancouver companies.

Development of the Epic terminal began in 1974-75 with a $1 million grant from the federal government – which by no means covered the cost. Among those who had a hand in its design was the then university professor, John MacDonald, who subsequently invented the related portable computer used in police cars and went on to found another successful high tech firm in Vancouver, MacDonald Dettwiler. But for inventors who believe they can make money because they have an idea, Helmut Eppich offers this reminder: if the invention costs $1, it will cost $10 to build the prototype, $100 to manufacture the product, and $1000 to market it.

Marketing Challenge

Hugo Eppich recalls that the original Epic Data collection system served as the answer to a requirement imposed on the defense industry by the United States Government for control measures that would eliminate questionable accounting. Without a sophisticated manufacturing base at the time, Canada was not much of a potential market; the first unit was sold to the University of British Columbia and then "nothing happened".

By putting the product on display at a computer trade show in Los Angeles, Epic Data had determined that there was great U.S. market potential; the advanced technology it embodied made the micro-processor terminal the biggest attraction of the event. The question was how best to market it.

Over the next decade, Epic Data went through a process of trial and error. They first sought help from a U.S. company that specialized in marketing high technology computer products and, for a handsome consulting fee, were advised to set up a network of manufacturer's representatives with computer expertise who would find customers. Once identified, customers could be brought together with the design staff to customize the products (which would have to incorporate different terminology, for example, depending on the location in the factory production line).

This plan did not work, as the product was not generic and the representatives did not know how to sell it. Gradually, Epic Data eliminated the system and replaced the representatives with product salesmen who are trained in-house.

Product Development

Epic Data has been changing its product continuously, although some units based on the original design are still sold. The company's market niche is in the customizing of the systems software. Feedback from customers is thus very important for research and development, and Epic Data has found a unique way of obtaining that information – which serves as a marketing tool as well. For the past 6 or 7 years, the company has hosted a convention in Vancouver of Epic Data users – more than 200 delegates attended the last function. This gives the customers an opportunity to interact both with the company and with each other.

Such follow-up is consistent with the importance placed on the after-sales market. Again as the result of experience, Epic Data stopped attempting to train customers to maintain the equipment themselves, and now encourages them to buy service contracts. Thus, maintenance services, too, are exported from Canada.

Competing in the United States

Ebco's president, Hugo Eppich, takes pride in the export success of Epic Data. While the firm has competition south of the border, he says that his system is the leader in the field. Both brothers agree that the Canada and U.S. markets must now be considered the "home market" for Canadian high technology goods. In fact, looking at the demographics, there is greater potential in selling to Seattle than eastward to Calgary.

They urge people in business not to regard the border as a barrier, for they have not found it to be one. But in order to succeed there, business people must make the U.S. market a priority, with a budget and time allowed to do the groundwork. High Canadian costs can be overcome if the company finds the right market niche.

Emperor

Emperor Mushroom Industries Inc.

Established four years ago in Richmond, Emperor Mushroom Industries Inc. has brought high technology to the art and science of mushroom farming. The company grows exotic mushrooms, notably the Shiitake and oyster varieties, and sells them to wholesalers in Canada and the United States specializing in exotic food products, whose customers, in turn, are mostly "white tablecloth restaurants".

Two years of planning preceded the incorporation. President Bob McDonald chose the business of mushrooms because he could see the trend toward health and gourmet foods, and British Columbia's Lower Mainland climate was amenable to a good quality product. The specialty mushroom is expensive on a weight basis, around $4.00-$6.00 per pound, and so can be shipped anywhere and still return a profit.

From the outset, the United States was seen as an integral part of the market, for two reasons – that was where the consumer trends were being realized first, and the limited size of the Canadian market could not support the necessary investment in technology. Exports account for about 60% of sales.

Production, too, is spread between the two countries. Emperor Mushroom also operates a mushroom farm in Washington state that accounts for a small proportion of total sales (included in the total percentage above).

Technological Advantage

As a matter of strategy, Bob McDonald says, he wanted a business that would have some comparative advantage in the North American marketplace by way of advanced technology.

In doing his research, he became aware of a new approach to growing Shiitake mushrooms indoors in a sterile environment that was being implemented in Japan. Eventually, a technology transfer arrangement was negotiated to bring this technology to the company.

Each variety or strain of mushroom carries its own particular genetic fingerprint, thus enabling a competitor to take a tissue culture and acquire the strain – which can now be patented. But Emperor's technological advantage lies more in the nature of the farming methods as they affect yields. "There is a fair amount of art involved", he hints. But despite the secrecy agreements that bind farm workers, the production method has migrated to other firms in the United States, and Bob McDonald says he can foresee the need for "another helping of technology" in order to maintain an edge in the market.

Marketing Lessons

There has been at least one false start in implementing the business plan. Originally, Emperor Mushroom attempted to sell directly to retail chains. The company spent a lot of money, "putting ladies with frying pans" in grocery stores to demonstrate the product before coming to the realization that it was much too costly to develop the end market themselves. The alternative was to shift focus to the food service sector, where distributors and restaurateurs, not the farm producer, are the ones who have to invest in altering consumer tastes.

This change also suited Emperor Mushroom from the standpoint of the firm's orientation, which was decidedly toward technology, not

marketing. Leaving the retail trade to someone else has enabled the company to concentrate more on the production side of the business.

Nonetheless, there have been marketing problems. Bob McDonald notes that, as a rule, the farther away the customer is located, the harder it is to secure payment. While this applies equally to Canada and the United States, Americans may have the perception of being insulated from administrative actions because of the different jurisdictions. His advice is to exercise caution in making deals – check credit references and so forth.

In addition, Emperor Mushroom has faced the same challenge all agricultural exporters do, that of getting a perishable product across the border efficiently. Apart from these factors, Emperor Mushroom finds doing business much the same in both countries.

Competitive Factors

Pennsylvania is the centre for production of exotic mushrooms in the United States, and the farms there employ Mexican migrant workers. Thus, Canadian producers with their high cost labour have to be extremely efficient in order to compete.

Another difference between the two countries, and one that attracted the company to the "continental market" from the beginning is that "profit is not a dirty word" in the United States. While that may give American competitors an edge, for Canadians with entrepreneurial spirit, it means doing business in the U.S. can be very satisfying.

Given the way Emperor Mushroom has organized production, the Free Trade Agreement has proven helpful inasmuch as no visas are required for Canadian managers of the company to visit the Washington state operation.

Inkameep Vineyards Ltd.

Owned and operated by the Osoyoos Indian Band, Inkameep Vineyards planted its first vines near Oliver in the Okanagan Valley in 1968. Ten years later, the vineyard introduced high quality European vinifera grapes commercially into British Columbia and over the years became the largest commodity producer of premium grapes in the province. Before the Canada-United States Free Trade Agreement (FTA) came into effect, the B.C. wineries enjoyed a 60% share of the protected provincial market and Inkameep, having in hand evergreen contracts with various B.C. estate and commercial wineries, seemed to face a secure future.

However, the FTA radically changed the situation. Over an abbreviated period of only seven years, the provinces were required to eliminate all discriminatory policies in terms of preferential mark-ups and listings of domestic wines. Moreover, the schedule was such that the largest reductions were required in the first two years. Within 366 days of the FTA being signed, B.C. wineries would lose one half of their price advantage.

In order to compete, the wineries at first refused to be bound by the earlier requirement to buy grapes grown in British Columbia. Instead, they wanted the option to buy on the world market with its surplus of low-cost (Californian) and subsidized (European) grapes and wine of the kind required for their customary jug wine production. If this were to happen, the greatest burden of the FTA would fall not on the wineries but on the grape growers.

Inkameep and the Osoyoos Indian Band were especially vulnerable because of their sizeable vineyard investment (240 acres) and associated debt, and their large investment in a winery leased to Bright's that still carried a $1.7 million loan liability. There was also the potential loss of employment for 100 employees, the majority of them Band members, in the vineyard, and 15 at the winery.

Adjustment Program

A normal market adjustment was not possible for the industry under these circumstances, and special government assistance was provided. Grape growers were paid, on average, $8500 per acre to offset the cost of removing vines and to compensate for the loss of income – Inkameep was eligible for this payment on 107 acres. In addition, in the spring of 1990, the vineyard could begin to access a pool to assist with replanting costs ($2500 against the cost of $10,000 per acre).

The sums offered did not make it possible for the Osoyoos Band to go out of business and still meet its debt obligations, and to continue to provide employment for Band members. Yet clearly, in the long term, it could not continue producing the same jug wine grapes which could now be imported much more cheaply. In the short-term, under the government adjustment package, Inkameep received new six year contracts with Andres Wine for grapes grown on the remaining 130 or so acres.

In 1988, an official joint Industrial Adjustment Services Committee was formed with representatives of the federal and provincial governments and Inkameep management and employees. The Committee's terms of reference were to assess fully the impact of the FTA and to develop plans for restructuring the vineyard. This work was carried out over a period of two years, focusing on the opportunities available to Inkameep to secure long term, stable markets for their better grape varieties.

Kenn Visser, Executive Director, Marketing and Special Projects for Inkameep, played a central role. Formerly a member of the provincial Grape Marketing Board, he had a special perspective on the problem. The Committee was soon to recognize that the higher quality of Inkameep's grapes positioned the vineyard to participate in the premium wine industry that was developing in the Okanagan through the fledgling estate wine sector. However, for Inkameep to enter into wine-making, given its large production capacity relative to the small size of the B.C. premium wine market, it would have to look to the export market.

Wine Market Research

To explore this possibility, the Committee embarked on a series of market research projects. Kenn Visser visited California and not only received advice from a broad spectrum of people in the wine industry there, but also conducted formal taste tests on a variety of B.C. wines made from Inkameep grapes. The enthusiastic response and the wealth of information gathered on the U.S. trend toward premium wine consumption laid the groundwork for Inkameep's new strategy. A trip to New York followed, with Kenn Visser accompanied by Stephen Cipes, a B.C. grape grower with valuable contacts among the wine marketing executives in the area. Again, B.C. wines were tasted and results confirmed the California findings.

Back at home, Inkameep set about correcting the inadequacies of the B.C. product, as identified in the tests. Gehringer Brothers Estate Winery was contracted to produce 1000 cases (12,000 bottles) of wine from Inkameep's Ehrenfelser grapes, with the goal of a drier style of wine than usual for B.C.

Professional help came by way of a large New York wine import and distribution company, Middleton White Imports Ltd., which believed B.C. wines could succeed in selected U.S. markets. Representatives of the firm came to British Columbia in January, 1989 (coincidentally, the first month of implementation of the FTA) and, pleased with the experimental Ehrenseler wine produced by Gehringer Brothers, entered into a test marketing program with Inkameep.

Nordique Blanc

Under the program, Middleton White named the new wine Nordique Blanc and designed a label that attempted to convey both a native Indian identity and the pristine image Americans have of Canada. In the words of Kenn Visser, Inkameep was to be sold as a "concept winery" where the "story" is marketed as much as the wine. Gehringer Brothers would produce it and Andres Wines Ltd. would handle the labelling, warehousing and shipping.

Only five months later, in a well planned marketing campaign, the wine was introduced in New York. The immediate response, documented by an accompanying CBC television crew, was very encouraging. A systematic follow-up consumer acceptance survey was conducted by a New York market research firm and, again, the results were positive.

Nordique Blanc was launched, but equally important for Inkameep and the whole of the B.C. industry, the results confirmed the viability of selling premium wines into the competitive U.S. market. This experience (which cost Inkameep $100,000) helped to bring about a new premium wine policy in the province and the necessary establishment of a British Columbia Wine Institute to develop standards and promote the product.

Today, Nordique Blanc is licensed to Andres Wines, and the 1989 vintage is being sold in quantities five times the initial 1988 production: 2000 cases in B.C. and 3000 cases in New York and five other major cities in the U.S. At the retail level, it is priced near $6.00 a bottle, a threshold level for premium wine. Kenn Visser, long familiar with the high taxes levied on wine in Canada, was surprised to find correspondingly high mark-ups in the United States. And despite the FTA, throughout the U.S., regional wines still benefit from preferential treatment.

Outlook

According to Kenn Visser, the Osoyoos Indian Band was quick to accept the new regime under the FTA and took a very positive attitude – while, he ruefully observes, some other Canadian grape growers and wineries still have not done so.

Inkameep's success and enthusiasm with Nordique Blanc is now carrying over to the development of a possible strategic alliance with a California champagne vintner that could mean a new winery and a whole new product line.

Med*ex Diagnostics of Canada Inc.

With over 50 employees and sales of over $5 million, Med*Ex Diagnostics of Canada Inc., located in Coquitlam, is one of the largest manufacturers of medical equipment in western Canada. The company exports 90% of its production, largely to the United States, but also to Japan and Australia.

Inventions

Med*Ex President Jim McArthur had produced weight stack exercise equipment during the 1970s. In 1981, with the aid of several key employees, he combined his manufacturing expertise with his knowledge of exercise physiology and computers. The end result was the muscle strength testing and rehabilitation machine called the Kin-Com.

He and Judy McArthur formed Med*Ex on the basis of this invention, and from the outset began selling to the United States, as the Canadian market seemed too small. By contrast, the American health sector is larger and offers greater rewards, demanding the latest, most cost-effective, best quality equipment. At the time, Kin-Com had only one competitor in the U.S..

At an early stage, Med*Ex entered into an exclusive marketing agreement with a larger American firm that already had a well-developed network serving the physiotherapy industry. This arrangement allowed Med*Ex to become well-established, and furnished the cash flow for further product development. Then, three years ago, Med*Ex sold the product rights to the same firm – which now manufactures and sells the Kin-Com. Back in Coquitlam, Jim McArthur began inventing a new computerized iso-kinetic muscle strength testing and rehabilitation machine that would be a technological advancement over the Kin-Com.

However when Dynatrac, this product successor, came on the market, Med*Ex ran into difficulty trying to set up the marketing and instead decided to sell all the rights to Dynatrac by way of a technology transfer agreement, to another American firm. This agreement remains in place, however, manufacturing is still being done in Canada by Med*Ex, at the highest production levels ever.

Meanwhile, the prototype of a third new product had been developed in cooperation with Children's Hospital in Vancouver. Called a Stabilet, this infant heater/resuscitator is used in hospitals immediately following birth to stabilize the temperature of the new-born child. Following its earlier pattern, Med*Ex at first sold the product directly, then found an exclusive distributor. Several generations of the Stabilet have followed, and it is now the largest product line for Med*Ex.

According to Med*Ex, a key to success is actively to ensure that the product evolves to meet the changing needs of the customer and to keep ahead of the competition. A tour of the plant reveals several mystery machines that represent just such an evolution in the Dynatrac and Stabilet product lines.

Tariff Reduction

Prior to the Free Trade Agreement, the United States duty on both of the Med*Ex products (Dynatrac and Stabilet) was 5.4%. By contrast, Canada had no tariff on incoming products similar to the Stabilet. As the only Canadian supplier, Med*Ex faced a level playing field at home but was on an unequal footing with its American competitors in the U.S.

Under the terms of the FTA, which called for a ten-year reduction in the U.S. duty, Med*Ex applied to the federal Interdepartmental Committee on Tariff Acceleration for a faster tariff elimination and was successful in having the duty on the Stabilet removed completely, only two years into the period. "This saved us having to wait 8 years," points out Ian Isbister, Vice President Finance, "and effectively gives our U.S. customers a 5% price reduction – although our export price did not change – because they had been paying the duty. This makes us more competitive."

Med*Ex's other product line, Dynatrac, is still subject to the more gradual tariff elimination although Med*Ex has applied for an acceleration here too, since a 5% duty applied to a $30,000 piece of equipment has a significant effect on price.

Choosing a Distributor

Not surprisingly, with this marketing experience, Med*Ex advises other firms wanting to export south of the border to consider developing alliances with American companies who know the market and have established distribution channels. All three of its products were a "concept sell" and meant a new way of doing the job for the customer. As a consequence, the firm doing the marketing has to be well-versed in both the existing technology and precisely how the new technology represents an improvement. Ideally, the distributor should have a vested interest in selling the product, e.g. by means of such incentives as up-front licensing fees and performance clauses.

Ian Isbister cautions companies to carefully think through what they want and what their options are, before approaching a prospective distributor. "The terms of the licensing or technology transfer agreement are very important, and alternative possibilities should be considered."

Med*Ex is proof that a British Columbia manufacturer of medical equipment can be successful, and Ian Isbister is heading a committee on the B.C. Science Council to promote further development of the industry in the province. He believes new companies in this sector cannot limit themselves to the Canadian market, as it is so small that even a 100% share would not support a fledgling business. New entrants must plan to export from the outset.

This does not imply, however, that local sales are not an important way of getting started. In this connection, Ian Isbister cites a provincial government purchasing program that can enable new companies to make their first sale in the local market.

A Brand New Product

One new product under development at Med*Ex is the New Reach PTM, which provides objective physical tests of a person's ability to perform certain occupational tasks, such as might be required in police forces and the military, without any bias due to sex, age or race. From a rough prototype acquired from a local Vancouver inventor with long experience in law enforcement and public safety, Med*Ex is developing a more adaptable version for application to a much wider market.

And on the factory floor, the latest versions of the Stabilet are coming off the production line.

NEXUS
ENGINEERING CORP.

Nexus Engineering Corp.

Winner of a 1990 Canada Export Award for having excelled in the international marketplace, Nexus Engineering Corp. of Burnaby is accustomed to recognition. The press kit for the Nexus Group, of which Nexus Engineering is both the founder and the largest part, is a thick document containing copies of more than 100 articles publicizing its accomplishments.

Established in 1982 by Basil Peters and Peter van der Gracht, both engineers, the company designs and manufactures radio frequency communications products for the satellite television, cable television and other satellite signal processing industries. Since 1984, Nexus Engineering has been exporting cable headend products offshore to Europe, Latin America, and Southeast Asia, and since 1985 to the United States. Success has enabled the company to double the level of production virtually every year, and in 1989 to even exceed that rate – to the point of running into manpower constraints. Sales are now $27 million, about one-third generated in the U.S. market, and the company employs 230 people.

Creating Market Niches

There are three main segments of the United States market for cable headend products: private cable systems such as in hotels, hospitals, and apartment blocks; small, rural communities with fewer than 5000 subscribers; and franchised cable operators in the large urban areas having more than 5000 subscribers. Nexus Engineering has established itself in the first two (in that order) and is now preparing to tackle the third.

In a sense, this market structure is the result of market development by Nexus. Initially, rather than simply targeting the existing market, the company created its own niches – by identifying opportunities its competitors had failed to recognize. Since the 1950s, cable television delivery had focused on communities with more than 5000 subscribers, and the costs were correspondingly large. It was simply uneconomical, using conventional equipment, to service smaller numbers of users. As a consequence, many people did not have the benefit of cable television programming.

Peters and van der Gracht studied hundreds of journals on related industries and technologies, and determined that they could significantly reduce the capital cost of headend equipment and create a market for cable systems serving as few as 75 subscribers. They aimed first at the potential market for private cable systems. In 1986, Nexus entered the small communities market in Canada, and two years later went into the United States.

By innovating and exploiting these two market niches, Nexus had become in 1989 the second largest North American headend manufacturer (by number of units sold), achieving an overall market share of at least 10%. (One firm, Scientific- Atlanta, dominates the market with a 70% share.) Moreover, they achieved this degree of success at a time when the headend industry was suffering a serious decline because most of the large cable systems had been completed. Competition within the established market was tight, but by creating new market niches, the company avoided the worst of it.

Credibility

Nexus faced a serious recognition problem in the beginning, as the newcomer to a very well established industry. Many of the design principles applied in the products were unfamiliar to the users and were initially rejected. Few customers believed that a unit one-third to one-sixth the size

of conventional units, powered externally, could produce the same excellent pictures and sound.

In order to establish their technical credibility, Peters and van der Gracht chose the standard scientific route and co-authored a series of published journal articles. This had the effect of showing them to be technical experts and demonstrating the superiority of their design concepts.

Nexus further addressed the credibility issue with its pricing policy. In the first few years, it priced its products well below the competition, believing a bargain was essential to overcome customer scepticism. By 1989, it was in a position to begin a program to gradually raise prices on individual products, having gained a reputation for reliability for which a premium could then be charged.

What's Next?

Nexus has sold over 750 systems in the United States during the past four years. In the niche markets it targets, the company is the leading supplier: in the private cable market (hotels, institutions) it has an estimated 30% share, and in the small communities market, over 80%. It is now preparing to enter the last remaining and the main segment of the market, large franchised cable operations. A new line of high performance equipment, significantly different from Nexus' traditional products, is now being designed.

On the marketing side, Nexus has successfully targeted a large franchised multiple system operator to be the first recipient of the new technology, and an important reference sale. Because this new type of customer depends on the long-standing reputation of equipment manufacturers, Nexus will adopt a different approach. A joint venture is now being developed to penetrate the broader market and cope with the strong competition that has been a deterrent until now.

Barriers

Nexus' Vice-President of Finance, David Rowat, observes that the Canada-United States Free Trade Agreement has had no noticeable effect on Nexus. "There have never been barriers to U.S. competition in our business", he says. "It is more the structure of the market itself that is significant, and Nexus has developed the strategies necessary to compete successfully."

Innovation

Director of U.S. Private Cable Sales, David Wood, characterizes Nexus as a classic example of a high technology, high growth company led by engineers to whom technology is paramount. Innovation has been a central part of the strategy of creating market niches. For example, he says, in its early years Nexus sought to increase its sales volume rapidly by developing as many new products as possible and creating market niches for them where their innovative features would allow Nexus to build market share, in the face of minimal competition.

One of the lessons of the Nexus experience is the need to understand potential customers' needs and to continuously invest in research and development, even during an economic downturn.

Norwood Packaging Ltd.

Its name is deceptive – Norwood Packaging Ltd. is really a manufacturer of a wide range of lotions, creams, shampoos, bath products, sunscreen products, and environmentally correct cleaning liquids. Formerly Norwood Pharmaceutical, before Richard York took over, the firm is now six years old. It employs 25 full-time and 5-6 part-time people at its plant in Burnaby, and last year had sales of $2.4 million.

Exports to the United States are an important part of the operation, contributing around 40% of sales annually. It took Norwood's owner only a year to realize that, despite the well-meaning words of encouragement from store buyers in western Canada that had prompted him to set up a west coast manufacturing facility, the regional market here would not support even a small business. He had to look south.

After a couple of years of planning and experimentation, the first exports were shipped only three years ago. Norwood concentrates on the U.S. Pacific Northwest market – a tough, insular market in the company's experience. In order to have a presence there, Norwood hired an independent American broker. As another part of its export strategy, the company makes it easy on the importer by pricing the product in U.S. dollars, f.o.b. the U.S. destination. By taking care of all of the border crossing aspects itself, Norwood helps to overcome any sales resistance to "foreign suppliers".

Market Niche

In this type of business, which Richard York describes as uncertain, where plans must be constantly adjusted and customers change their minds quickly, you have to "live by your wits". Personnel turnovers are frequent in large chains, making for inexperienced buyers and an environment in which it is difficult to obtain lasting commitments.

In this situation, he was able to find a market niche which has proven to be the basis of Norwood's success. (Canadians are especially good at niche marketing, he believes, because "every market here is a niche".)

His own niche turned out to be small runs of private label and custom packaged health and beauty aids. Private label brands are used by department stores and drugstore chains as a way to escape the strong price competition on brand names. Long involvement in the field of private label personal and household consumer products helped Richard York recognize a void not being filled by his American competitors, whom he describes as "ten smoke stack operations". Unlike its American counterparts, Norwood Packaging has the scale of equipment and operation to handle small runs, to react in a far shorter time, and to be much more innovative. Today, Norwood manufactures a line for Nordstrom's, the large Seattle-based department store chain, among numerous others not so well known in Canada.

Despite the challenges of the U.S. market, Richard York finds the larger conglomeration of stores there makes it far easier to find a match with Norwood's capability and values. And finding many such matches is just what a manufacturer of private label goods must do to stay in business.

Standards

Pride on the part of the retailer demands that the private label products be of high quality. "If your name is on it, you don't want an inferior product." That element of the niche market has meant that Norwood must place considerable importance on standards and innovation. About 95% of sales are their own formulations – two chemists on staff are continually developing new formulas. Recently a new line of shampoos took 3 1/2 months of laboratory work, for example. In order to maintain an advantage in the environmentally aware market, Norwood has developed a line of products that do not contain animal by-products or ingredients tested on animals.

One complication is that any claims made about environmental impacts have to be documented in advance of the market debut. If the products are destined for the world market, they must meet an array of different national standards, and the paperwork takes a great deal of time and effort. Just such an obstacle is now holding up the marketing of Norwood's own line of "body-friendly" products.

Credits

Richard York says he is indebted to someone who gave him very good advice about the American market when he first began scouting the opportunities there. That someone was Allan S. Poole, Canadian Consul in Seattle at the time. (Poole made such an impact that Richard York still has his business card handy.)

What Mr. Poole advised was to make a concerted effort to sell in the U.S. market, to give it a serious and long-term commitment, and not to expect immediate business in return. Poole warned against thinking that a Canadian businessman can "come down here and carpet-bag and go home with a fistful of offers". Over the years this advice has helped Richard York maintain the patience and persistence required to succeed.

Norwood also received financial assistance from the federal Western Diversification department, enabling the company to build up a greater inventory in the raw materials for its suntan products. Richard York says this money came at an opportune time, and allowed the company to tackle a seasonal product line having great market potential. The National Research Council has also helped with support for research and development, notably in the area of quality control.

Pep-Talk

Canadians should not be deterred from the export market, Richard York believes. He has found that, despite the "publicity" Americans give themselves, business people in Canada have no reason to feel inferior. On the contrary, although they lack confidence, Canadian manufacturers are every bit as good, even better, in his experience. As a former Board member of the Canadian Manufacturing Association, he urges Canadian businesses to give it a try, and promises that others too will find it is "worth the effort".

Pamap Technologies Corporation

A world map on the wall bears a forest of tiny flags pinned where PAMAP Technologies Corporation has had installations, agents or consulting projects. Four flags crowd India, five the west coast of South America, and there are more on the face of Morocco, Taiwan, Italy, Thailand, Scotland, the Netherlands and many other countries. At a glance it seems that the company is everywhere. But a closer look reveals that the United States is bare except for lone pins at Washington, Oregon, Montana and Washington D.C.

After nine years in business, only in the past year or so have Pamela and Peter Sallaway, Chairman and Vice Chairman respectively, felt ready to tackle the U.S. market. The Victoria-based company was started in 1981 by this wife-husband team, both computer scientists with post-graduate degrees. During the first three years they provided clients around the world with software design and other consulting services – this gave them insight into the practical needs and problems of the users. Then a pivotal event occurred that eventually transformed the company into a manufacturer: the British Columbia Ministry of Forests challenged PAMAP to design a geographic information system (GIS) which became the prototype for the product they launched in 1985.

Testing and success with the first GIS and its subsequent generations in countries around the world convinced PAMAP that they could fill a particular market niche with a superior technology. But it was not until 1988 that the company began the strategic planning necessary to realize this potential. At the time, it had 23 employees, had enjoyed steady growth and had developed good customer service arrangements. Through the help of a business consultant, senior management started actively to focus on the future.

Strategic Planning

The first step was a retreat during which the consultant acted as a facilitator, enabling the managers to identify and endorse company objectives. Collectively they found they were committed to building PAMAP into the best, recognized geographic information system company in the world. The next step was to prepare a business plan to achieve that goal, and the same consultant was given the initial task. What has become known as Business Plan #1 was finished in early 1989. From a marketing standpoint, the plan was based on a natural resources niche but showed the need for about $1.3 million to gear up to sell the product.

The Federal Business Development Bank (FBDB) helped PAMAP investigate different possible sources of financing, which led to the development of another business plan and the decision to raise equity capital. By the time the capital has been raised, three years will have gone into this planning stage.

Balancing Marketing and Technology

Among the lessons PAMAP has learned is that the orientation toward technology (which comes naturally for scientists) must be balanced with equal priority on marketing and sales. PAMAP found that the GIS technology, no matter how attractive to a customer, was not sufficient to sell the product. The size, experience and reputation of the company is just as important, but often these factors would not become relevant until a late

stage in making the sale, once the technical people had been satisfied and the holders of the purse strings became involved. Understanding that process, PAMAP today introduces the issue at the beginning of the sales pitch (by directing its sales campaign also to non-technical branches of customer organizations) and simply doesn't persist if the prospect is not comfortable with a small supplier.

PAMAP is now putting the final touches on a marketing plan for the United States. Applying the same careful approach as in the formulation of a business plan – where "the key to success", according to Peter Sallaway, "is bringing in the right complementary expertise at the right time" – an American specialist in the GIS product sector has just finished developing a marketing plan for the company. This plan will see a 3-person office located in Washington D.C., chosen for being the hub of government but also because of the international and industrial representation there.

Government Assistance

PAMAP received a loan for the Western Economic Diversification program to develop the United States market, specifically to introduce its software to a couple of large computer hardware manufacturers and to offset related technical development and marketing costs. Pamela Sallaway is grateful that WED recognizes both R&D and marketing as legitimate company expenditures, in contrast to other government programs that assist research but do nothing to foster its commercialization. She would rather see fewer projects supported, with a broader base of support.

Selling Products, Not Patents

Software enters the United States duty-free, thus the Free Trade Agreement has not affected PAMAP's export initiative one way or the other. Sales trips across the border have never been a problem, but now it is easier for the company to sell its consulting services too.

Of course, like other Canadian companies that have earned international acclaim for their technology, PAMAP could easily fall into what Pamela Sallaway refers to as a "syndrome" Canadians have to overcome: at this stage, simply selling technology off to a much larger foreign company. Instead, PAMAP is trying to raise money to keep the technology Canadian, and to ensure that the benefits stay in Canada, indeed in Victoria.

Personally, she believes Canada needs a better climate for business that starts right in the educational system, by changing negative attitudes about profit. Such a change in orientation would help Canadians compete in the American marketplace.

PIMLICO APPAREL LTD.

INTERNATIONAL DENIM

Pimlico Apparel Ltd.

A giant washing machine runs noisily at Pimlico Apparel Ltd. in Vancouver, stonewashing another batch of denim to exacting standards. In business for 13 years, this clothing manufacturing company has total sales in the range of $5-10 million annually. A portion of this volume represents contract work for companies such as Levi Strauss and Australian Outback, which supply their own fabric while Pimlico contributes the labour and machinery for garment assembly.

Under the Free Trade Agreement, the Canadian tariffs that have long sheltered the "needle trade" from American competition are being reduced by 10% per year over a ten year period. With its particular market niche, however, Pimlico has succeeded in the past without the benefit of such protection, and has a positive outlook for the future – somewhat of a contrast with other domestic manufacturers who have to make the adjustment. In fact, Pimlico is actively lobbying for faster tariff reduction, particularly in view of the potential for a free trade arrangement between the U.S. and Mexico.

Contract Production

A veteran of the garment trade, owner Harold Lenett long ago established a reputation for quality workmanship that won him contracts with major marketing companies to assemble their denim products. Pimlico's early association with G.W.G. of Edmonton helped the company, which now includes his son Howard Lenett, to understand the importance of a quality product and the need to "de-skill" the production process in order to compete successfully, in the face of an increasing shortage of labour skilled in sewing.

De-skilling involves breaking down the production process into discrete steps, so that each can be performed with specially designed equipment and work aids, requiring minimal skill or judgement on the part of the operator once he or she has been trained. This adds greatly to productivity and enables Pimlico to pay Canadian wage rates to its 200-250 employees, yet still compete with countries like Jamaica and Mexico (with hourly wage rates of 88 to 91 cents). It also makes quality control comparatively easy, which is the main concern of the brand name marketing companies. (Such de-skilling is only possible, however, when assembling simple commodity clothing that is not subject to fashion trends.)

The contract business, in which the company has now established itself, serves as its "bread and butter". But what captures the Lenetts' imagination is a new side of the business which they have developed, initially targeted toward the U.S. market.

Imprint Market

Despite their knowledge of the industry, Harold Lenett admits Pimlico "just fell into" the imprint market. Looking at catalogues, they realized that their basic denim jackets could be used for advertising in the same way as t-shirts, pens and calendars; yet despite a strong demand there did not appear to be any suppliers.

The father and son team did all of their own research into this potential market, estimated to be worth $4 billion for the apparel sector as a whole. They applied for and received financial assistance from the Western Diversification Program. And the elder Lenett re-designed the

standard jean jacket to more easily accommodate an embroidery or crest imprint; this meant removing certain vertical seams, without changing the traditional design. In effect, the company is offering a variation on private label manufacturing, such that every conceivable club or organization is a potential customer.

After an "800" telephone number had been set up and advertising placed in U.S. trade magazines, the orders started coming in. Now the company is refining its approach: adding variations of the jacket – different washes and colours – and improving the technical quality of the photography in its mail order brochures. Each month sales are increasing.

American versus Canadian Market

Harold Lenett notes that the United States over the years has become generally more quality conscious, and this has contributed to the private label trend (coupled with the fact that a private label product limits price comparisons).

A salesman at heart, he says he prefers the American market to that in Canada. He relishes the large population base with its great potential for sales, and warns the novice: "if you are worried about competition, don't even go into business".

He has found that Canadian buyers, responding to "over production" in Canada, habitually order more clothing lines and seem more concerned with variety than whether something is going to sell. By contrast, American buyers are very focused; they want fewer lines and only those which are assured to win.

On the whole, he believes Canada is not a good testing ground for a new domestic garment manufacturer because the market here is too conservative and over supplied. Rather, he recommends the American market where innovation is appreciated.

Industry Colleagues

To his colleagues in the clothing industry, Harold Lenett offers these words of advice: use the current adjustment period under the FTA to learn what to do in order to compete when the tariffs come off, and make the necessary investment. He counsels them to see this period as a unique opportunity for self-improvement that should not be squandered.

RSF Energy Ltd.

Company advertising brochures proclaim that RSF Energy "puts a glow in your life". Located in Smithers, this 12-year old firm manufactures a broad range of steel and aluminum products, many for the mining and forest industries in northern B.C. The plant employs between 30 and 40 people depending on the season. Sales in 1990 totalled nearly $4 million.

Exports represent a rapidly rising proportion of sales, having increased some 15 percentage points last year alone, to top one-third of sales, and it is the type of product sold to the United States that really puts a glow in the RSF financial picture. This product is stoves, forced air furnaces, and fireplaces, all designed to be wood-burning yet "environment friendly".

Trade Shows

Company President Hans Duerichen started going to trade shows in the U.S. after being in business three years. This was at the height of the urban demand for wood heat in 1980-81, when the price of oil was an incentive for consumers to shift to other fuel sources. He admits that although RSF supplied stoves at the time, they were the wrong product for American city dwellers – although he did sell them in the colder climate of Canada. Then, after the market declined and wood heat demand became so cyclical that the plant had overcapacity a good part of the year, he decided that it had to be put to better use.

More trade shows followed, and so did several different plans to expand into certain markets which were, in turn, launched and ultimately failed. For several years the company lost money, and it was then (1985) that the bank suggested that RSF seek the services of a marketing consultant. With this professional help, Hans Duerichen, himself an engineer," changed methodology" and began to make a careful, month-by-month business plan. A strategy was formulated which focused on a market niche: that of the more serious wood-burning customer, not the major market. Such an approach would free RSF from going head-to-head with competitors on the basis of price.

At shows, RSF Energy would ask questions, find out what was selling, what the dealers and distributors were looking for – Hans Duerichen's favourite question to them became, "what would you like to be able to sell that you haven't got?" The company also did further research that included reading studies on future consumer trends and talking to other people in the industry. As a result, the company targeted on both visual design and environmental performance as the features that would differentiate their product from the rest.

The Regulatory Environment

Hans Duerichen saw the Clean Air Act in Oregon, passed in 1986, as a pace-setting development. The legislation was the first to set a deadline for requiring wood-burning stoves and heaters to meet air emission standards. Taking this as a direct challenge, he designed a unit capable of meeting or exceeding the standards. (Incidentally, he notes that B.C. Research helped to cover the costs of having the necessary lab tests done in the U.S. on the RSF product; at that time, there was no authorized lab in Canada.)

This 1986 unit became the prototype for a 1987 model that earned Oregon certification. Because the Environmental Protection Agency (EPA) in the U.S. then accepted Oregon's air emission standards, the RSF stove was also acceptable for sale nation-wide.

But this experience became a prototype of another kind, for RSF has just repeated the process of rising to a challenge set by a U.S. regulatory authority. The EPA is trying to devise an appropriate standard for the level of particulates and gases emitted by fireplaces, which it was thought could not be as strict as that for heaters and stoves (because there is less scope for standardization). Meanwhile, RSF has designed a fireplace that surprisingly will meet the tougher standards applied to stoves. As this new product reaches the market in the coming year, RSF expects U.S. sales to jump. The product brochure promises that, "as a result of the ...clean burn technology, consumers can still enjoy the romance and ambiance of an open fire without compromising environmental quality".

Experience has convinced RSF of the value of staying in close touch with proposed legislation in the U.S., monitoring it and reacting quickly.

Market Testing

Hans Duerichen found very early that wood heat is subject to so many variations, e.g. in the type of fuel, moisture content of the wood, kind of chimney etc., that units could pass lab tests but still fail to perform well in the customer's home. As a consequence, RSF has a well-developed program of field-testing and this serves as a prime reason the company is very loyal to its Smithers location. In the beginning, local households which bought RSF products spontaneously provided feedback on performance factors. Over the years, the company has progressed to a more sophisticated testing system, but it still involves the local residents in product development. Hans Duerichen has found them to be very supportive, and sees this as an advantage to being in Smithers, rather than a more market-oriented location.

Financing the Initiative

While RSF faced a need to raise money in order to undertake its export initiative, it rejected government assistance programs as requiring too much "rigamarole". In addition to bank loans, the company raised $250,000 by forming a Venture Capital Corporation under the terms of the provincial legislation. Hans Duerichen's partner, a chartered accountant, organized the move and, again, local people showed their support for the company, this time by buying shares in the VCC. The federal PEMD program has also been useful in offsetting some of the costs of attending trade shows in the U.S.

American Market

The Canada-United States border is not an impediment, as far as RSF is concerned. In fact, with the Free Trade Agreement now in effect, the company has found that psychologically the Americans are less reluctant to buy from Canada. Distributors do not differentiate between suppliers.

But the key is to make a specialized product and to find distributors who are sufficiently interested to help with product development. This search took RSF a number of years and concentrated on identifying key figures in the distribution network, then getting them excited about the products. Along the way, some sales managers have come and gone, but the importance of product development has been maintained throughout.

SONAX
ACOUSTICS LTD.
FURNITURE MANUFACTURER

Sonax Acoustics Ltd.

In a former apple-packing plant at Oliver in the Okanagan, Sonax manufactures knock-down furniture, including TV stands, computer desks, shelving systems and entertainment wall units. Sales for the year ending August, 1990 were in the several millions of dollars. Employment at the plant varies seasonally in the range of 40 to 50 workers.

When Poul Pedersen advertised in a Vancouver newspaper five years ago for a business partner, Hugh MacKay had just left a company that manufactures machinery for the forest products industry; he had never worked in the consumer goods market before. But Poul Pederson had previously owned and operated a furniture factory in Denmark.

Once into business conjointly, the partners began manufacturing speaker cabinets for NEC. During the past three years they have shifted production to knockdown furniture and entered the United States market to the degree that exports now account for about one third of sales.

European Look

Sonax identified ready-to-assemble furniture as the fastest growing segment of the furniture market in North America. At 6% of the market, North America has a long way to catch up to Europe where the share is 60%. And with this type of product, the United States market simply had to be included in order to achieve sufficient economies of scale in manufacturing.

Comparison shopping at a consumer electronics trade show in Los Vegas helped Sonax to decide on product specifications for this combined market. According to Hugh MacKay, the equivalent American furniture tended more to the lower end of the market. European manufacturers held the higher end – and Poul Pederson had brought this technology and expertise with him to Canada. As a matter of strategy, the company chose to manufacture good quality "middle of the road" furniture in the European style. In MacKay's view, this reflects the image our southern neighbours have of Canada – in his opinion, an image that is worth money.

Mounting the Expansion

Having been started with just the basics, this expansion and export thrust brought with it the need for a larger and more skilled workforce, a four-fold increase from 10 to 40 unionized employees operating more sophisticated machinery and warehousing equipment. A 10,000 square feet addition, privately financed, was also made to the factory, and new laminating equipment was purchased. The company consistently attended a number of Canadian and American trade shows in consumer electronics and furniture, and also scouted for new machinery and equipment in the field. In every way it was a quantum jump for Sonax and did not look much like the company's first strategic plan, based on a much narrower market.

Market Share

Now Sonax has achieved a share of the market throughout the United States in two categories: consumer electronics and "lifestyle" furniture. The export initiative has proven so successful that Hugh MacKay estimates another expansion of the factory will be needed within twelve months.

HC117/.B7/C6/no.1
Hodgins, Barbara.
Competitiveness in the
'90s : export to the U.S.
BYAL c. 2 aa ISC

DATE DUE - DATE DE RETOUR

ISTC 1551 (2/90)

challenges pite real
petitive env ys the U.S. com-
of $10 milli company's goal
extent, low accept, to some
petitors for ice of its com-
customers quality, leading
ue.

find it a str quickly is likely to
sell to the U y, companies who
75% of the d any more than
federal Exp ntees from the
a higher pe nce banks to lend
and notes a ained such help
circumstan s to suit the

Positive

U.S. compe s facing greater
Agreement, Free Trade
American n ers in the
work, in an f the trade paper-
company is llars. And the
Hugh Mack mestic market –
experienced nadians are very
Moreover, h e less true.
Canadians. will not interest

The confidence Sonax has exhibited, its calm acceptance of the "continental market" as a target, derives in part from the attitude Poul Pederson brings from Europe. He went through the formation of the European Economic Community and firmly believes in the benefits of freer trade and more competition. Unlike some of the furniture manufacturers in Ontario, for example, who bemoan the prospect, Sonax takes an aggressively positive approach. (Of course, knockdown furniture does not suffer from the high freight rates on assembled furniture.)

Handy Hints

Hugh MacKay is on the road much of the time. He has learned that a Canadian manufacturer must have a U.S. presence and that retailers want to know the owners of the company. He advises other businessmen to "look prosperous" when making visits.

Trade shows are a way of seeing your sales representatives and customers, he notes, and there may be few other chances. In dealing with such people, Hugh MacKay suggests a willingness to be flexible, to "try it their way" if possible.

These export results have been achieved despite real challenges in the United States market. Hugh MacKay says the U.S. competitive environment is very difficult. In order to reach the company's goal of $10 million in sales within five years, Sonax has had to accept, to some extent, lower margins than expected, e.g. matching the price of its competitors for some product which was actually of superior quality, leading customers to perceive the Canadian product as better value.

Any small company attempting to grow this quickly is likely to find it a strain to finance its growth privately, and typically, companies who sell to the U.S. may find that Canadian banks will not lend any more than 75% of the value of their U.S. accounts receivable. Guarantees from the federal Export Development Corporation (EDC) may convince banks to lend a higher percentage of accounts receivable. Sonax has obtained such help and notes appreciatively EDC's flexibility in adapting rules to suit the circumstances.

Positive Outlook

Canada's furniture manufacturing industry is facing greater U.S. competition in the home marketplace as part of the Free Trade Agreement, but is enjoying a reciprocal reduction of barriers in the American market. Sonax insulates its importers from all of the trade paperwork, in any case, by shipping f.o.b. their stores, in U.S. dollars. And the company is not worried about more competition in the domestic market – Hugh MacKay brushes this off with the comment that Canadians are very experienced at selling into the U.S., but the reverse may be less true. Moreover, he expects the lower quality of the U.S. product will not interest Canadians.

The confidence Sonax has exhibited, its calm acceptance of the "continental market" as a target, derives in part from the attitude Poul Pederson brings from Europe. He went through the formation of the European Economic Community and firmly believes in the benefits of freer trade and more competition. Unlike some of the furniture manufacturers in Ontario, for example, who bemoan the prospect, Sonax takes an aggressively positive approach. (Of course, knockdown furniture does not suffer from the high freight rates on assembled furniture.)

Handy Hints

Hugh MacKay is on the road much of the time. He has learned that a Canadian manufacturer must have a U.S. presence and that retailers want to know the owners of the company. He advises other businessmen to "look prosperous" when making visits.

Trade shows are a way of seeing your sales representatives and customers, he notes, and there may be few other chances. In dealing with such people, Hugh MacKay suggests a willingness to be flexible, to "try it their way" if possible.

Competitiveness in the '90s

Conclusions

What can other British Columbia businesses learn from these success stories, perhaps to initiate their own strategies for expansion into the United States market? Below are some of the lessons that might be drawn:

- take encouragement from these B.C. role models: be aggressive and confident, embrace the competition in the U.S. market-place, and don't believe the myths of American entrepreneurial superiority;
- the image Americans have of Canada is worth money embodied in Canadian products;
- attend trade shows for market research and product development;
- make a serious commitment to the export market and learn what consumers want;
- ideally, choose a market niche or geographic area where customer awareness does not have to be developed – a costly endeavour;
- if your product is innovative, use scientific journals in the field to gain recognition;
- let the product evolve, and continuously invest in research and development;
- look to the local community for possible support in field testing the product;
- choose a distributor who will take an interest in product development;
- balance the priority given to technology and to marketing;
- study what regulatory authorities are doing because new standards may provide a market opportunity;
- do your homework before entering technology transfer agreements;
- initially at least, set your prices below the U.S. competition for goods and services of comparable quality so the Canadian product will be seen as a bargain;
- align with aggressive, well-financed distributors and leave room for them to make a profit;
- insulate U.S. buyers from the international trade aspects of dealing with a Canadian supplier;
- check credit references for unknown far-away American buyers;
- enquire about government assistance programs or consider the equity market to finance an export initiative;
- publicize your successes and invest in quality print materials that advertise the product or the company;
- locate joint venture partners in the United States – with so many more businesses, there is a better chance of a good match;
- pay attention to the after-sales market for the potential to export services;
- take advantage of the adjustment period under the FTA to become more competitive; and
- make frequent trips to the U.S. so sales representatives and customers get to know you.

Of course some of these lessons may only apply in certain circumstances, but the overall message from the winners is that British Columbia firms CAN AND DO succeed in the United States market!

INDUSTRY CANADA/INDUSTRIE CANADA
44200