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# The State of Exporting in Northern Ontario

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Prepared for FedNor by
Ron Mulholland

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For a print copy of this publication, please contact:

FedNor
19 Lisgar Street, Suite 307
Sudbury ON  P3E 3L4
Tel.: 705-671-0711
Fax: 705-670-5331
Toll-free: 1-877-333-6673
Email: publications.fednor@ic.gc.ca

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# Executive Summary

In 2006, Northern Ontario exports totalled $8.4 billion. The bulk of the exports were mining and primary metal products, accounting for 63% of the region's export total and representing a twofold increase in share since 2003. Wood products and paper contributed 24% of 2006 exports, dropping by almost 50% over the same period. This drastic change in the mix of exports over the three-year span indicates the extent to which Northern Ontario continues to be affected by the world's cyclical resource economy. While the United States remained Northern Ontario's greatest importer of goods and services in 2006, the percentage of exports directed there fell sharply since 2003, dropping from 80% to 60%. Other countries, notably China, accounted for 26% of foreign exports in 2006, while the European Union received 13%, and the remainder was split between Mexico and South America.

There's no question that the strong value of the Canadian dollar in the global market has greatly affected the price and volume of some exports to the United States and, to a much lesser extent, Mexico, India and Europe. The softwood lumber dispute, along with the Canadian dollar's appreciation, may also explain the decline in Northern Ontario forestry and wood product exports, while demand from world markets, notably China, explains the rise in exports from mining and related industries.

In 2006, there were 614 exporters in Northern Ontario. That number represented 2.3% of Northern Ontario businesses, including 24% of the region's manufacturing firms. By comparison, 8% of Canadian small and medium-sized enterprises (SMEs)[1] exported, including 31% of Canadian manufacturers. Not surprisingly, the handful of Northern Ontario companies (6%) that exported in excess of $25 million annually accounted for the bulk of exports. Furthermore, almost three-quarters of Northern Ontario's exporters were small firms with less than 50 employees. These small companies (less than 50 employees) grew in number (306 in 2003 to 446 in 2006) and size (average sales grew from $900 000 to $3.2 million) from 2003 to 2006. These growth factors indicate the ability of smaller firms to prosper among larger exporting firms. Those larger firms had declining or stable numbers, and stable or growing average sales during the same period.

This report is based primarily on a survey targeting Northern Ontario firms that export outside the region as well as potential firms in manufacturing and other professional services. Exporters made up 204 of the 400 responses. Companies ranged in revenue size, years in business, and number of employees. The information collected revealed that exporting companies tend to generate higher revenue: more than 60% of exporting firms reported growth while a significantly lower proportion (40%) of non-exporting firms reported growth.

Financing, marketing and human resource challenges were among the key reasons cited for not exporting by firms that have not engaged in exporting outside of Northern Ontario. All respondents were asked to freely list challenges to exporting. The top three factors were identified as distance from markets (including transportation costs and logistics), sales and marketing, and labour shortages. In a list of 14 challenge factors, transportation was the highest-rated challenge. It is interesting to note that exporters rated most factors as significantly less challenging than non-exporters, an indication that export experience can reduce uncertainty or the perception of risk.

Respondents also identified key factors for export success, including having an in-demand product or service, a local representative, competitive pricing, advertising, and qualified personnel.

[1] SMEs are firms with less than 500 employees.

Significantly higher proportions of exporters found the first several factors as key success factors, indicating that export experience reinforces the need for quality and service to remain competitive. Rapid-growth export firms indicated they had less difficulty developing products and marketing plans, while they were more likely to have sales representatives or partners in the market than slower-growing firms.

The remarkable growth in number and size of firms with less than 50 employees indicates there is growth potential for other firms of this size. The level of export participation in Northern Ontario, which at 2.3% is less than the 8% Canadian average, also demonstrates there is room for growth. Indeed, it is conceivable that up to 2000 Northern Ontario firms could be exporting, which would more than triple the current number.

# Introduction

Export and trade are important means for Northern Ontario SMEs to grow and prosper. Consequently, expansion of export activity is a key component of regional economic development. Export sales bring new wealth into communities, creating employment, economic activity and stability for firms. Implementing an export program can be a daunting task for companies as they face a large range of new challenges including new customers, new competitors, and a new and foreign sales territory. They also have to enlist advice, support, and service from a host of potential new suppliers including banks, freight forwarders, marketers and other professionals. Exporting involves managing a completely new set of relationships, in addition to dealing with the unknowns associated with doing business in another region or culture. It is no surprise that some companies choose not to export — while others navigate the challenges and opportunities, searching for growth and profit.

This report was designed to shed light on the exporting challenges and opportunities facing Northern Ontario SMEs. By examining industry statistics and the current environment, and surveying exporters and potential exporters, the report provides practical information about exporting companies, and their development and success in the global marketplace.

The report is divided into five components, presented in five chapters:

- Chapter 1 examines the Northern Ontario exporting environment,
- Chapter 2 analyzes Statistics Canada data on Northern Ontario exporters from 2001 to 2006,
- Chapter 3 describes the survey of Northern Ontario exporters,
- Chapter 4 summarizes the data and analyzes the state of exporting in Northern Ontario,
- Chapter 5 outlines exporting challenges and opportunities.

# Chapter 1 Northern Ontario Business Environment Overview

## *Environment for Exporting*

Exporters and potential exporters are influenced by a number of factors in the business environment. Typically, these factors fall into one of two categories: internal or external. Internal factors may include such potential positive influences as the owner's expansion plans for growth (particularly international growth intentions); having appropriate products/services for export, including uniqueness and/or technological advantage; excess capacity; the need to diversify; and the desire to extend seasonal sales. A number of potential internal barriers include firm size, costs of market entry, lack of financial and human resources, inadequate information on potential markets, transportation costs/problems, and information on customs, duties and other border-related issues.

External factors affecting the business environment include saturated local/domestic markets, easing of barriers/access to markets, ease of entry into the market, exchange rates, and demand in export markets.

In order to consider which business environment factors influence exporting activities in Northern Ontario, it is important to understand the source, type and destination of exports. Statistics Canada (StatCan) data, which will be examined in detail later, reveal that exports of forestry and related products have declined while exports from the mining, primary metal, and machinery manufacturing sectors increased. In 2006, forestry, wood and paper products still accounted for approximately 24% of the $8.4 billion in goods and services exported from Northern Ontario. Meanwhile, mining and primary metal products topped the list with 63% of all exports. The third-largest category was machinery at 3.4%, followed by transportation equipment at 2%, and fabricated metal products at 0.6%. It is clear that forestry and mining-based products still define Northern Ontario exports.

Destinations for these export products also have an impact on business environment conditions. StatCan research indicates the majority of Northern Ontario exports go to the United States, so any change in conditions in that market would have a profound effect on Northern Ontario exports. Other regions of interest include the European Union (13%), and Mexico and South America (1%). Accounting for 26% of exports in the "other" category, which comprises several export destinations.

China likely accounts for a large portion of the "other" category, given that StatCan figures show that Canada's exports to China tripled from $2.5 billion in 1997 to nearly $8 billion in 2006 (Table 1.1). In 2006, Canada shipped nearly $1.2 billion worth of metal ore and nickel articles and $1.1 billion of wood pulp to China.

**Table 1.1 Canada's Exports to China, 1997 and 2006**

| | 1997 ($000s) | % Share | 2006 ($000s) | % Share |
|---|---|---|---|---|
| Total Exports | 2 407 500 | | 7 661 300 | |
| Nickel Articles | – | – | 641 700 | 8.4% |
| Metal Ore | 101 600 | 4.2% | 558 100 | 7.3% |
| Pulp | 262 100 | 10.9% | 1 136 500 | 14% |

Source: Statistics Canada: Canada's Trade with China, 1997–2006. Catalog number 65-508-X2007001

The size of an exporting company also has an influence on its reaction to the environment. The majority of companies exporting from Northern Ontario are smaller in size (<200 employees), while the majority of value in exporting comes from companies with 200 or more employees. According to StatCan data, approximately 50 large companies in Northern Ontario are exporting. Given that there are 80 companies with more than 500 employees in Northern Ontario, it's likely that half of the 50 exporting companies identified as large have more than 500 employees. Larger SMEs (>200 employees) and large companies enjoyed a stable level of sales during 2003–2005 and then a substantial increase in 2006. Companies with 100–199 employees experienced a decline in average value of exports since 2003, although in 2006 things seemed to stabilize. Companies of 50–99 employees had fluctuating values since 2003. Smaller SMEs (<50 employees) seemed to weather adverse environmental factors well, as their share of exports rose steadily from 2003 to 2006 (Table 1.2). One could speculate that many of these smaller companies were associated with mining service and supply.

**Table 1.2 Value of Northern Ontario Exports, By Firm Size, 2003–2006**

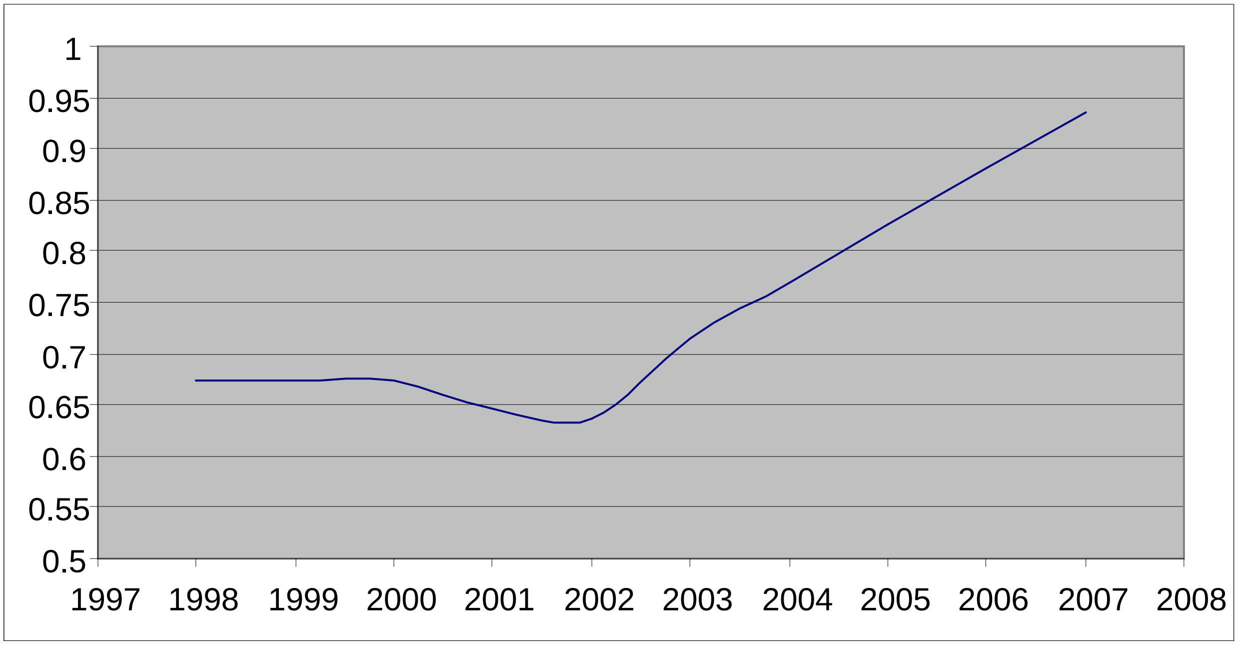
| **No. of Employees** | **Value of Exports ($ Millions)** | | | |
|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** |
| Less than 50 | 274.8 | 669.2 | 1 295.9 | 1 430.0 |
| 50 to 99 | 216.1 | 704.5 | 194.2 | 590.7 |
| 100 to 199 | 456.1 | 302.3 | 272.7 | 297.8 |
| 200 and more | 4 490.1 | 4 777.0 | 4 521.3 | 6 087.5 |
| Total | 5 437.1 | 6 453.0 | 6 284.1 | 8 405.9 |

Source: Statistics Canada Exporter Register (2003-2006)

As 60% of 2006 exports went to the United States, the most significant external factors affecting Northern Ontario exports were related to the U.S. economy, exchange rates, and border duties/tariffs. Presently, these factors are challenges for exporters as the U.S. economy is in or near recession, housing sales are slowing and the Canadian dollar has risen in value to near parity with the U.S. dollar, forcing up relative costs. These factors have a dampening effect on exports to the United States, which have increased in relative cost, while demand in some sectors has fallen. This is particularly the case in the forestry and related products sector.

Increases in relative cost are due to fluctuations in the Canada/U.S. exchange rates. Figure 1.1 indicates the climb of the Canadian dollar to near parity with the U.S. dollar over the last 6 years. Overall, the Canadian dollar appreciated 39% over the last 10 years, with the steepest climb coming after the economic slowdown in 2001. The share of total Canadian exports going to the United States declined from 81% in 2001 to 60% in 2006. The future business environment in the United States is uncertain because it is unknown how long the economic slowdown will last. The upcoming election may also have an impact on economic and border-related issues.

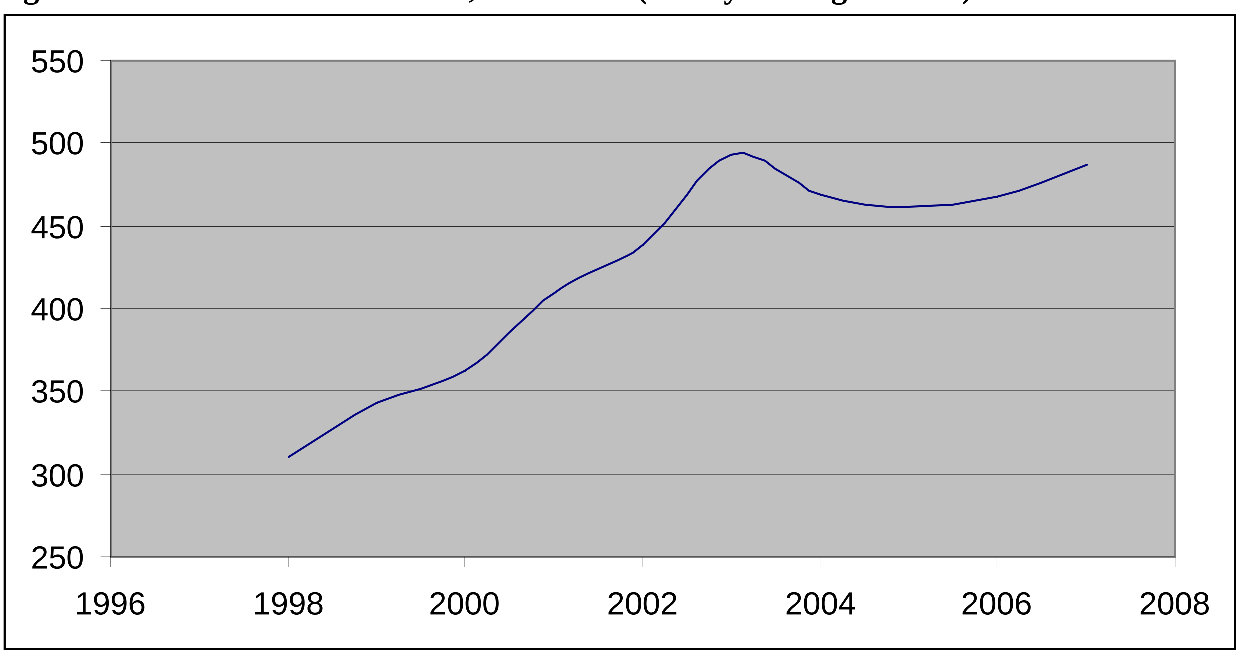
**Figure 1.1  C$ versus US$, 1998–2007 (Yearly Average Values)**




Note: C$1 is shown as the solid blue line and the US$ equivalent is on the X axis.

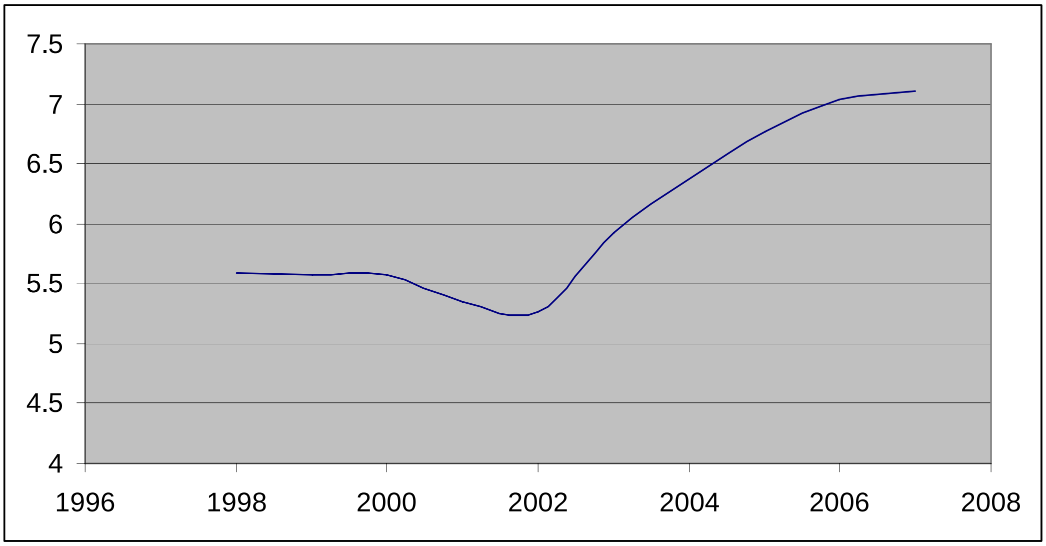
Additional charts illustrate the value of the Canadian dollar against other export destination currencies. The countries listed are current trading partners with Northern Ontario. The dollar appreciated at varying rates against all these currencies during 1998–2008. The greatest gains were against the Mexican peso (66%) and smallest against the Euro (8%). Two other export destination currencies illustrated are the Chilean peso (57%) and the Chinese renminbi (27%).

**Figure 1.2  C$ versus Chilean Peso, 1998–2007 (Yearly Average Values)**



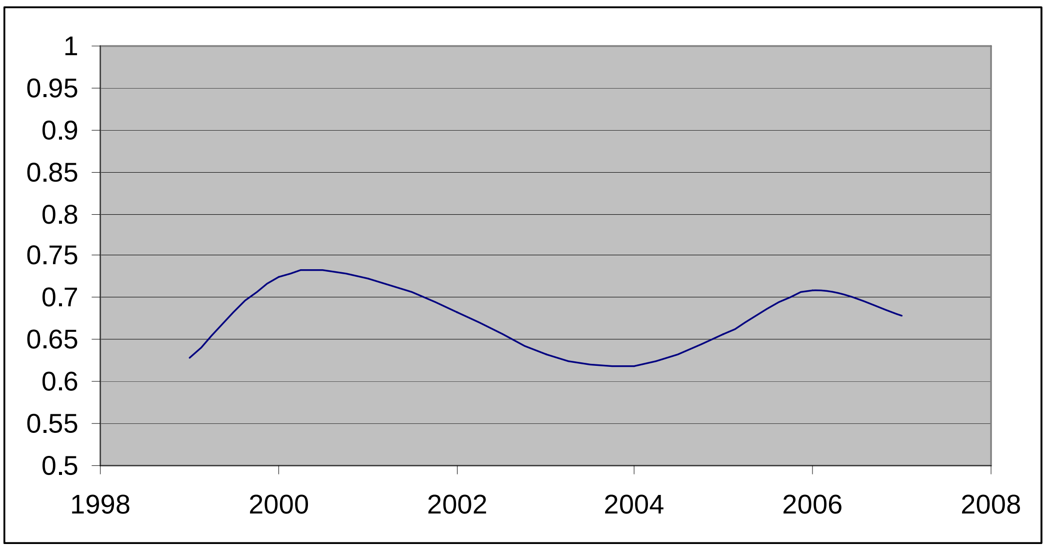

Note: C$1 is shown as the solid blue line and the Chilean peso equivalent is on the X axis.

**Figure 1.3  C$ versus Chinese Renminbi, 1998–2007 (Yearly Average Values)**



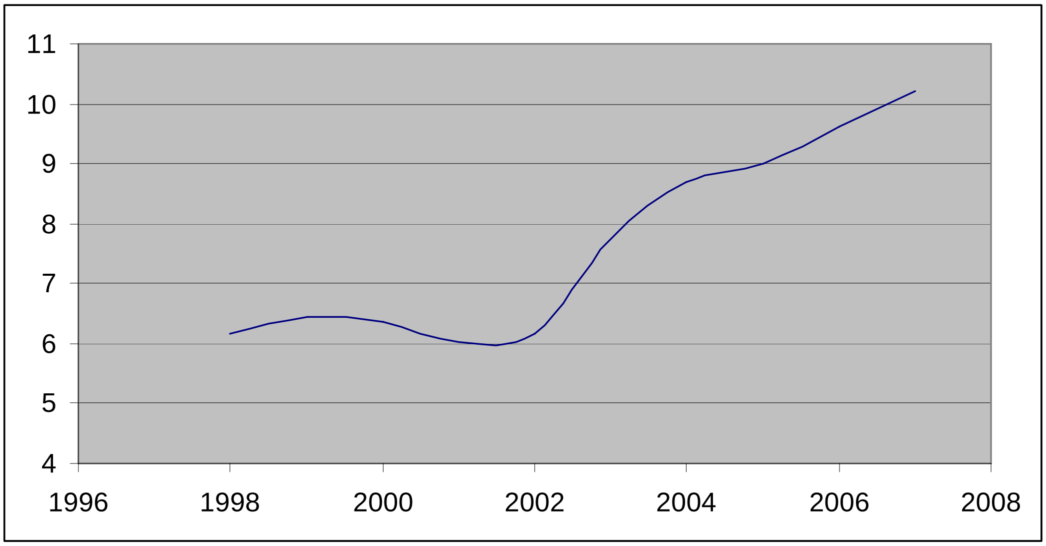

Note: C$1 is shown as the solid blue line and the Chinese renminbi equivalent is on the X axis.

**Figure 1.4  C$ versus Euro, 1999–2007 (Yearly Average Values)**




Note: C$1 is shown as the solid blue line and the Euro equivalent is on the X axis.

**Figure 1.5  C$ versus Mexican Peso, 1998–2007 (Yearly Average Values)**




Note: C$1 is shown as the solid blue line and the Mexican peso equivalent is on the X axis.

These figures show that selling Canadian goods into the European Union was most attractive from a price point of view, while selling into Mexico was the least attractive. Indeed, exporters to Mexico faced a 66% price increase, as the gap between the value of the peso and the Canadian dollar increased after 2002.

Although exchange rates can be a challenge or barrier, opportunities are presented when the Canadian dollar rises in value in relation to U.S. currency. Export products are more expensive for purchasers but exporting companies can invest in productivity by importing relatively less-expensive machinery/technology to improve their operations and reduce costs. They can also take a number of other steps to moderate the effect of high exchange rates. These steps include emphasizing quality and after-sale service, dealing in counter trade (exchanging goods or services that are paid for with other goods or services, such as through barters and buy-backs), and maximizing expenditures in the export country’s currency.

The strong rise in the value of mining and mining products exports is primarily due to nickel demand in China and Europe; this demand is expected to continue in 2008. This export market will be moderated, however, by supply from other parts of the world and China’s internal supply. The Chinese market is, generally, opening up in accordance with World Trade Organization (WTO) regulations. Canada is exporting an increasing number of commodities into the Chinese market, which is growing at a rapid rate of nearly 10% per year.

Free trade and access to markets is always an issue in exporting. Canada’s largest trading partner, the United States, is generally in support of free trade. The softwood lumber dispute, however, revealed that even our primary trading partner can impose tariffs, quotas, and other sanctions on Canadian (and other) exporters. Canadian companies face various regulations, tariffs and other challenges when entering the United States or any foreign country. To export successfully, companies must understand the nature of the target country’s business regulations and cultural customs, and the effects they may have on trade.

Competition is always a factor in the business environment. In export markets, competitors are local firms as well as foreign firms from other exporting countries. Competition can provide an impetus and opportunity for exporting companies in similar industries and/or in geographic proximity to cooperate in a number of ways. Companies in a similar industry would be wise to cooperate, such as by forming or joining a trade association to benefit from shared industry knowledge, collective marketing activities, and lobbying as a group for government assistance, including government help to promote products and services in foreign markets.

The availability and cost of transportation are factors for businesses exporting physical goods. With service companies specializing in logistics, this aspect of exporting can be outsourced, leaving the exporting company to concentrate on its core business. It is worthwhile for companies of all sizes to use freight forwarders, who have the contacts and experience to ensure initial export shipments arrive smoothly, on time and on budget. The only factor SMEs have to consider is the effect on the free on board (FOB) price in the destination country. Transportation out of Northern Ontario is limited to trucks for most SME-produced goods. Some companies are utilizing rail, which can be a good option if it fits scheduling and target destination parameters.

Research and timing are essential to developing an export market. With advances in technology and Internet penetration, it is becoming easier for smaller firms to engage in export investigation and ultimately, to begin exporting. Smaller companies are flexible and can find niche spaces among the larger players and larger sectors of the market, which allows them to thrive in spite of overall adverse business environment conditions. This is evident by the growing number of small (<50 employees) Northern Ontario companies entering into exporting at the same time as SMEs already exporting are seeing increases in the average yearly value of their exports.

In 2003, there were 300 firms with less than 50 employees exporting out of Northern Ontario. These companies sold on average $900 000 in goods and services to export markets. In 2006, the number had grown to nearly 450 firms, each of which was exporting on average $3.2 million in goods and services. These data indicate clearly that these firms found particular areas of the market conducive to exports in spite of an appreciating dollar and other negative factors.

## *Conclusion*

The appreciation of the Canadian dollar against the U.S. dollar and other currencies, a slowing U.S. economy and the softwood lumber dispute are contributing to a decline in forestry and related products exports, which are destined mainly for the United States. At the same time, demand for nickel and nickel products in Europe and China is creating demand in the mining and primary metals sector. In the gaps between these large sectors and markets, small firms (<50 employees) are managing to grow in spite of some negative macroeconomic conditions. They are finding receptive niche markets for their value-added products/services and are thriving. Their success is likely facilitated by access to information through the Internet, the use of current technology for productivity gains, and selling a product/service based on values other than basic cost.

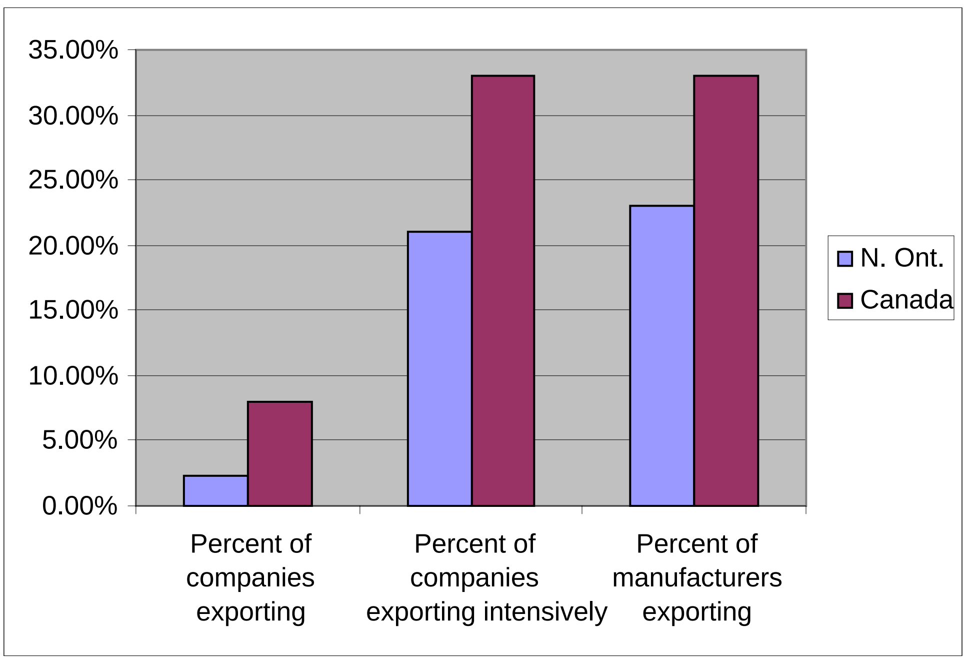
Thus, there is potential in the current export environment for small companies to succeed and grow. Smaller Northern Ontario companies are finding ways to neutralize the disadvantages in the business environment and their geographical challenges to find success in export activities. SME ingenuity and exporting successes are positive signs for economic growth in Northern Ontario. Note that understanding the nature of SME exporting successes (and failures) requires additional research, which is beyond the scope of this report.

# Chapter 2 Statistics Canada Northern Ontario Export Data Analysis

Exporting is a key element in Northern Ontario's economy. Through exporting, companies broaden their business markets and reduce their dependency on local market conditions. Exporting requires improving competitiveness that can ultimately lead to company growth, resulting in economic development in the local area. For these reasons, it is important to understand current conditions and trends in the export sector. The facts in this chapter are based on StatCan data for Northern Ontario exporters for the years 2001 to 2006.

In 2006, Northern Ontario had 614 exporters (that is, there were 614 businesses with export sales of $30 000 or more). They represent 2.9% of the more than 21 000 exporters in the province and 2.3% of the 26 000 businesses in Northern Ontario. The percentage of Northern Ontario exporters, however, is lower than the 8% of Canadian SMEs[2] who exported goods and services that year. In comparison to Canada-wide statistics, only 24% of Northern Ontario manufacturing firms exported versus 31% of Canadian manufacturing firms. The difference in proportion of Northern Ontario companies versus all Canadian companies is illustrated in Figure 2.1.

**Figure 2.1 Proportion of Northern Ontario (N. Ont.) versus Canadian Exporting Companies, 2006**




Note: exporting intensively means that exports represent greater than 50% of a company's revenue

The total number of businesses in Northern Ontario, as well as exporters only, is listed by industry grouping, in Table 2.1.

[2] Orser, Barbara, Martine Spence, Allan Riding and Christine Carrington, *Canadian SME Exporters*, 2008. Industry Canada. SME Financing Data Initiative: http://www.ic.gc.ca/epic/site/sme_fdi-prf_pme.nsf/en/h_00000e.html

**Table 2.1 Business and Exporter Population in Northern Ontario, by Industry Grouping, 2006**

| Industry Grouping (According to the North American Industrial Classification System) NAICS) | Estimated Number of Businesses | Number of Exporters | Exporters as a % of Businesses |
|---|---|---|---|
| Agriculture, Forestry, Fishing, Hunting | 1 231 | 65 | 5.3 |
| Mining, Oil and Gas Extraction | 124 | - | - |
| Utilities/Construction | 3 360 | 20 | 0.6 |
| Manufacturing (total) | 1 071 | 260 | 24.3 |
| Wholesale Trade | 1 120 | 110 | 9.8 |
| Retail Trade | 4 332 | 35 | 0.8 |
| Transportation and Warehousing | 1 447 | - | - |
| Finance and Insurance | 821 | 20 | 2.4 |
| Business Service | 4 110 | 41 | 1 |
| Other* | 8 702 | 63 | 0.7 |
| Total | 26 318 | 614 | 2.3 |

* "Other" includes service industries such as government and education, (-) data unavailable.
Source: Statistics Canada. International Trade Division. Exporter Registry (2006)

In 2006, Northern Ontario exporters sold $8.4 billion in goods and services to buyers outside the province. Natural resource-related products accounted for 87% of the total and included primary metal products ($2.8 billion), mining and forestry products ($2.7 billion), paper products ($1.2 billion), and wood products ($0.8 billion). Manufactured machinery accounted for 3.4% of total exports while transportation equipment accounted for 2%. The remaining North American Industrial Classification System (NAICS) industry groupings each represented less than 2% of the total. Table 2.2 illustrates the number of exporting companies in the different industry sectors during the years 2001 through 2006. The last row of the table indicates that the total number of exporters declined from 2001 to 2003, was fairly stable to 2005, and grew 11% in 2006. The 2006 total represented an overall decline of 24 exporters from 2001 mainly because there were fewer retail traders. An estimate of the number of exporters in 2007 would be between 550 and 650 firms.

**Table 2.2 Exporter Population in Northern Ontario, 2001–2006**

| | Number of Exporting Firms | | | | | |
|---|---|---|---|---|---|---|
| **Industry Grouping (NAICS)** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Agriculture, Forestry, Fishing Hunting | 50 | 46 | 44 | 38 | 60 | 65 |
| Mining, Oil and Gas Extraction | 23 | 17 | 15 | 12 | — | — |
| Utilities/Construction | 25 | 21 | 23 | 31 | 20 | 20 |
| Manufacturing (total) | 255 | 265 | 251 | 248 | 246 | 260 |
| Wholesale Trade | 117 | 110 | 104 | 102 | 98 | 110 |
| Retail Trade | 64 | 57 | 34 | 36 | 28 | 35 |
| Transportation and Warehousing | 28 | 20 | 17 | 15 | — | — |
| Finance and Insurance | 19 | 12 | 11 | — | 14 | 20 |
| Business Service | 31 | 34 | 25 | 47 | 35 | 41 |
| Other* | 26 | 30 | 18 | 25 | 51 | 63 |
| Total Number of Exporters | 638 | 612 | 542 | 554 | 552 | 614 |

- "Other" includes service industries such as government and education; (-) data unavailable

Source: Statistics Canada. International Trade Division. Exporter Registry.

Northern Ontario exporters contributed 4.7% to the total value of Ontario exports, which was $177.4 billion in 2006. From 2003 to 2006 in Northern Ontario, there were declines of up to 40% in forestry, wood products and paper products exports. In contrast, growth in mining, primary metal and machinery exports ranged from 67% to over 300% during that period.

There was an overall 29% increase in the value of Northern Ontario exports from 2001 to 2006. The rise in the mining sector was somewhat offset by the aforementioned decline of the forestry, wood products and paper products sector. Although Northern Ontario as a whole experienced overall growth, there was a shift in prosperity from the Northwest, where forestry, wood products, pulp and paper play a significant role in the economy, to the Northeast, where mining supply and services is a prominent industry sector.

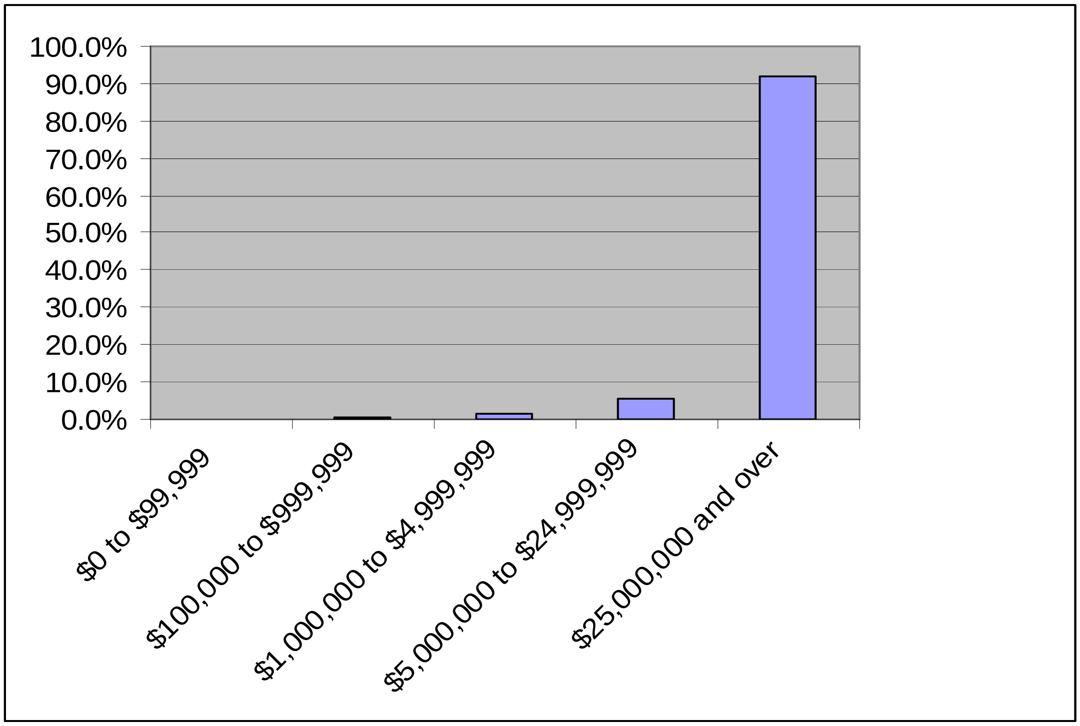
The majority (86%) of exporters sell to at least one part of the United States. Approximately half of Northern Ontario firms exporting to the United States ship to the Industrial Heartland (Wisconsin to Ohio), more than 40% ship to the Midwest (Montana to Missouri) and the Eastern Seaboard (North Carolina to Maine), while approximately one-third report shipments to the West (Washington to California) and Southeast (Arkansas to South Carolina). Another 15% are selling to the European Union, 10% to South America and less than 5% to Japan and Mexico. Approximately one-fifth or 21% of the companies export to "other" countries, that is, countries that have not already been mentioned.[3]

The United States also represented the largest consumer in dollar value of Northern Ontario exports; its share in 2006 was 60% of the $8.4 billion total. The Industrial Heartland absorbed over one-fifth of total export value, 17% went to the Eastern Seaboard, 11% to the Midwest, 6% to the Southeast and 3% to the West. Non-U.S. exports were 40% of the total value, with the majority, 26%, going to "other" countries not including the European Union, which absorbed 13%. Japan, Mexico and South America each accounted for less than 1% of export sales. In general, exports to the United States have been on a downward trend since 2001. The 26% drop in exports to United States since 2002, however, was offset by increases in exports to "other" countries (a 96% increase) and to South America (71%). Comments on export trends to Japan, Mexico or the European Union can't be made here, given the limited data available on companies exporting to those areas.

Larger companies, those that export over $25 million annually, accounted for the majority (92%) of the $8.4 billion of exports in 2006. Companies reporting $5–25 million in exports shipped 6% of the 2006 total, 2% was shipped by companies exporting $1–5 million, and companies exporting less than $1 million worth of goods accounted for less than 1% (see Figure 2.2). In terms of five-year trends in the share of total exports, exports from the largest companies grew by 2%, while exports from companies selling $5–25 million declined 28%, and those selling less than $1 million declined 36%.

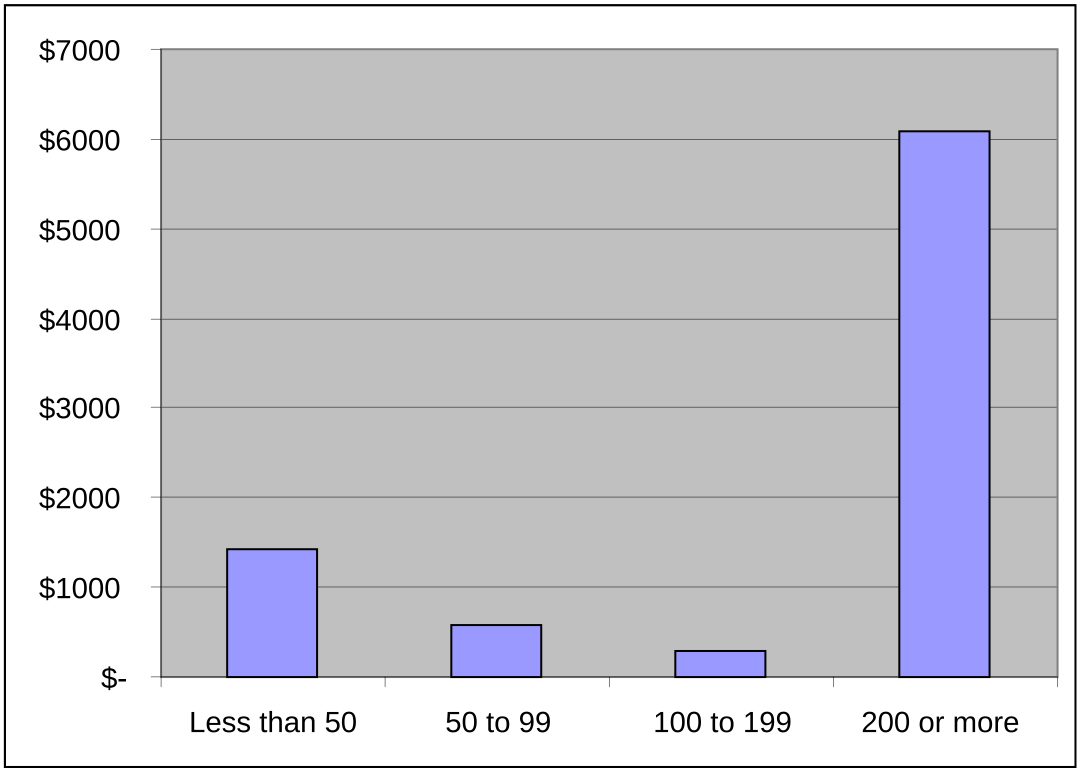
[3] Note that these percentages don't add up to 100% because many exporters reported selling to multiple countries.

**Figure 2.2 Share of Northern Ontario Export Sales, by Companies' Revenue Size, 2006**




The largest portion of exporters (73%) was companies with less than 50 employees; however, these companies shipped only 17% of the dollar value of exports. In contrast, companies with more than 200 employees represented 9% of the number of companies exporting but sold 72% of the dollar value of shipments. Companies with 50–99 employees represented 11% of total exporters and 7% of total sales, while those with 100–199 employees represented 7% of exporters and 4% of sales. The most significant trend over the four years of data available in this classification was that companies with less than 50 employees increased their share from 5% of exports in 2003 to 17% in 2006. Their total value of sales ($1.4 billion) in 2006 exceeded that of companies with 50–99 and 100–299 employees combined. Figure 2.3 illustrates the percentage of exports contributed by companies of different employee size category.

**Figure 2.3 Value of Exports ($ Millions), by Company Size (Number of Employees), 2006**




## *Conclusion*

In summary, a number of trends were revealed. The most significant trend over the five-year period from 2001 to 2006 was the rise in mineral resources and related industries exports, which was partially offset by the decline in forestry resource and related industries exports. Specifically, approximate increases totalling $3 billion over the period occurred in mining ($1.7 billion), primary metal manufacturing ($1.1 billion), and machinery manufacturing ($200 million). Declines in wood products ($300 million) and paper ($900 million) together reached nearly $1.3 billion. The increases largely account for the 29% growth in the value of exports from 2001 to 2006. More current data is likely to show continued growth in the value of exports.

Company size is correlated to export sales. Generally speaking, the larger the company is, both in terms of employees and sales, the greater its portion of total Northern Ontario exports will be. One anomaly, as previously mentioned, is that companies with less than 50 employees hold a disproportionately high share (17%) of export sales. This may be a function of size of company in the high-value mining or mineral-related industries.

Although Northern Ontario still relies on the United States as an exporting destination, this dependence decreased from 80% of exports in 2001 to 60% in 2006. In fact, there was a decline in share to all regions of the United States except for the Midwest, whose share remained consistent at 11% of exports. Meanwhile, large increases were reported in exports to South America and other countries including China.

# Chapter 3 Export Survey: Methodology, Results and Analysis

## *Survey Methodology*

The survey instrument was developed in concert with the research firm IPSOS-Reid; a copy is appended. Research has shown a number of factors influence the decision to export including age and size of business, market perceptions, access to information, type of industry, and type of product. The objective of the survey was to identify challenges and keys to success in the underlying factors.

The survey was targeted at Northern Ontario industries that have export potential. These industries were identified as:

- mining and mining supply;
- heavy and civil engineering construction;
- manufacturing;
- wholesale trade: machinery, equipment and supplies; and
- professional services including architectural, engineering and related services, specialized design services, computer systems design, management, scientific and technical consulting services and scientific research and development services.

Readers are cautioned that because companies were not randomly selected, the results and conclusions may not apply to industries outside this survey.

Of the 26 000 businesses in Northern Ontario in 2006, 614 were exporting products with a value in excess of $30 000. Since the number of exporters was relatively small, and given the typical response rate for telephone surveys, it was unrealistic to expect that more than 200 current exporters would respond to a survey. Therefore, a decision was made to expand the survey to include non-exporters who were planning to begin exporting in the next 12 months, as well as those who manufacture exportable goods and services but were not already exporting. Those who were planning to export were going through the necessary steps to begin exporting and would have an informed perspective that would be of interest. Those who produce exportable goods and services but were not exporting would also have a useful perspective, based on the reasons they had chosen not to export.

The proposed sample size was 400 businesses, including 200 businesses that were already exporting outside of Northern Ontario and 200 businesses either planning on exporting or with exportable goods and services available but no plans for exports. A number of sources were used to develop a list of businesses. Research indicated there were approximately 3000 businesses in the identified North American Industrial Classification System (NAICS) codes for Northern Ontario. FedNor had a list of 700 exporting or export-ready companies. Additional lists were available from commercial providers, such as Info Canada and Dun & Bradstreet. A response rate of 14% was required to produce the estimated sample. This percentage was within reasonable and historically achieved parameters.

The survey was tested, refined and launched in the field in early February 2008.

## *General Description of Firms Surveyed*

The survey produced 400 total respondents, 204 of whom were current exporters. Exporters were identified as any company shipping goods outside of Northern Ontario. Of the 204 identified exporters, 87 companies "exported" only to the rest of Ontario and within Canada, while 117 companies exported internationally. Industry sectors were chosen based on their potential to export. Companies in manufacturing represented the highest proportion (55%) in the overall sample and were 63% of the exporting group. Professional service providers made up 40% of the overall sample but were only represented in 37% of the exporting group. Table 3.1 indicates the industries in which companies produced products or services, as well as the number of exporters and non-exporters.

**Table 3.1 Exporting and Non-Exporting Survey Respondents, by Industry Sector**

| Industry Sector* | Total Respondents | % | Number of Exporters | % | Number of Non-Exporters | % |
|---|---|---|---|---|---|---|
| Base: All respondents | 400 | | 204 | | 196 | |
| Mining and Mining Supply | 103 | 26 | 60 | 29 | 43 | 22 |
| Heavy and Civil Engineering Construction | 52 | 13 | 20 | 10 | 32 | 16 |
| Manufacturing | 218 | 55 | 128 | 63 | 90 | 46 |
| Wholesale Trade: Machinery, Equipment and Supplies | 68 | 17 | 33 | 16 | 35 | 18 |
| Professional Services: Total | 158 | 40 | 76 | 37 | 82 | 42 |
| Architectural, Engineering and Related Services | 70 | 18 | 32 | 16 | 38 | 19 |
| Specialized Design Services | 137 | 34 | 70 | 34 | 67 | 34 |
| Computer Systems Design and Related Services | 34 | 9 | 16 | 8 | 18 | 9 |
| Management, Scientific and Technical Consulting Services | 64 | 16 | 40 | 20 | 24 | 12 |
| Scientific Research and Development Services | 36 | 9 | 22 | 11 | 14 | 7 |
| Other (specify) | 138 | 35 | 66 | 32 | 72 | 37 |
| Don't know/Refused to answer | 1 | 0 | 0 | 0 | 1 | 1 |

* Note that some companies listed activity in multiple industries

Companies ranged in age from less than one year to more than 100 years in operation. The distribution was fairly even over the first four decades, with between 17% and 30% of companies in each decade of age to 50 years. Thirteen percent of companies were over 50 years of age. There was no significant difference between the distribution of age of exporting and non-exporting companies except for the 30–49 year age group, which had a significantly higher proportion of exporters. Table 3.2 breaks down the companies by age.

**Table 3.2 Exporting and Non-Exporting Survey Respondents, by Age Group**

| | Total Respondents | % | Number of Exporters | % | Number of Non-Exporters | % |
|---|---|---|---|---|---|---|
| Base: All respondents | 400 | | 204 | | 196 | |
| Less than one year | 1 | 0 | 0 | 0 | 1 | 1 |
| 1 to 9 years | 66 | 17 | 31 | 15 | 35 | 18 |
| 10 to 19 years | 121 | 30 | 60 | 29 | 61 | 31 |
| 20 to 29 years | 84 | 21 | 42 | 21 | 42 | 21 |
| 30 to 49 years | 75 | 19 | 47 | 23 | 28 | 14 |
| 50 to 100 years | 38 | 10 | 16 | 8 | 22 | 11 |
| Over 100 years | 13 | 3 | 6 | 3 | 7 | 4 |
| Don't know/Refused to answer | 2 | 1 | 2 | 1 | 0 | 0 |

The owner/manager's tenure with the exporting or non-exporting company is shown in Table 3.3. The experience of managers was evenly distributed and no difference existed between exporters and non-exporters.

**Table 3.3 Experience of Owner/Manager**

| | Total Respondents | % | Number of Exporters | % | Number of Non-Exporters | % |
|---|---|---|---|---|---|---|
| Base: All respondents | 400 | | 204 | | 196 | |
| Less than one year | 12 | 3 | 5 | 2 | 7 | 4 |
| 1 to 5 years | 81 | 20 | 46 | 23 | 35 | 18 |
| 6 to 9 years | 62 | 16 | 28 | 14 | 34 | 17 |
| 10 to 15 years | 96 | 24 | 45 | 22 | 51 | 26 |
| 16 to 30 years | 125 | 31 | 66 | 32 | 59 | 30 |
| Over 30 years | 23 | 6 | 13 | 6 | 10 | 5 |
| Don't know/Refused to answer | 1 | 0 | 1 | 0 | 0 | 0 |

Company size in terms of number of employees is listed in Table 3.4. The majority of companies (61%) had 10 employees or less; companies with up to 20 employees represented 80% of the sample. This size distribution is similar to that of all businesses in Northern Ontario. Among exporting respondents, there was a higher proportion of companies with 11–50 and 51 or more employees than among the non-exporters.

**Table 3.4 Company Size, by Number of Employees**

| | Total Respondents | % | Number of Exporters | % | Number of Non-Exporters | % |
|---|---|---|---|---|---|---|
| Base: All respondents | 400 | | 204 | | 196 | |
| 1 employee | 25 | 6 | 9 | 4 | 16 | 8 |
| 2 to 10 employees | 219 | 55 | 95 | 47 | 124 | 63 |
| 11 to 50 employees | 118 | 30 | 69 | 34 | 49 | 25 |
| 51+ employees | 37 | 9 | 30 | 15 | 7 | 4 |
| Don't know/Refused to answer | 1 | 0 | 1 | 0 | 0 | 0 |

Similarly, a higher proportion of companies with revenues exceeding $5 million were exporters. Company size in terms of sales revenue is listed in Table 3.5. Note that this information is based on a smaller number of companies willing to answer this revenue-related question than other survey questions.

**Table 3.5 Company Size, by Revenue**

| | Total Respondents | % | Number of Exporters | % | Number of Non-Exporters | % |
|---|---|---|---|---|---|---|
| Base: All respondents | 400 | | 204 | | 196 | |
| Less than $100 000 | 38 | 10 | 14 | 7 | 24 | 12 |
| $100 000 to < 500 000 | 85 | 21 | 37 | 18 | 48 | 24 |
| $500 000 to < 5 million | 142 | 36 | 70 | 34 | 72 | 37 |
| $5 million + | 58 | 15 | 41 | 20 | 17 | 9 |
| Don't know/Refused to answer | 75 | 19 | 40 | 20 | 35 | 18 |

## General Operating Results

When asked about the general state of their business including export sales, compared to prior years, over 50% of the firms reported growth. Specifically, 82 firms (21% of the sample) said their business was growing rapidly, while an additional 120 (30%) said it was growing slowly. Stable sales were reported by 131 companies (33%), while 51 (13%) reported a slow decline and 16 (4%) reported a rapid decline. In response to a question about specific sales growth percentages, 194 firms reported their average growth over three years was 36%, representing an average growth of 12% per year. A growth figure of 15% per year may be considered "high" growth. As a comparison measure, this indicates growing firms are doing well, nearly reaching (on average) the high growth threshold.

Firms were asked what percentage of their sales was exported out of Northern Ontario. According to the responses, the average exporting firm achieved 55% of sales outside of Northern Ontario. Of the 204 exporters, 30% exported 100% of their sales, 27% exported between 10% and 20% of sales, and the balance of firms exported between 30% and 90% of sales. A total of 116 firms or 57% exported more than 50% of sales outside of Northern Ontario. Firms with this level of export sales — where exports account for more than 50% of total sales — are known as export intensive. Nationally, export-intensive firms represent only 33% of exporters. In counting only the surveyed firms that export internationally, that is, outside of Canada, there were 117 firms; 25 (21%) of these firms were export intensive.

The next query prompted exporters to reveal the regions in which they were selling products or services and what percentage of their sales went to purchasers in those regions. Table 3.6 indicates the majority of exporters were selling to the rest of Ontario, the rest of Canada and the United States. The remaining regions are served by 15% or less of the exporting companies.

**Table 3.6 Export Destination and Share of Revenue**

| Export Destination | Number of Companies | Average Share of Total Revenue |
|---|---|---|
| The rest of Ontario (outside Northern Ontario) | 176 | 29% |
| The rest of Canada (outside of Ontario) | 139 | 19% |
| The United States | 118 | 21% |
| Western Europe | 19 | 9% |
| Eastern Europe | 10 | 3% |
| Central America, South America or the Caribbean | 29 | 9% |
| East Asia (for example, China, Japan and the Philippines) | 21 | 5% |
| South Asia (for example, India, Pakistan Sri Lanka) | 7 | 3% |
| Africa and the Middle East | 13 | 15% |

In commenting on their own growth in export sales, 49 or 24% of the 204 exporters stated their export sales were growing rapidly, 54 (26%) reported exports were growing slowly, and 69 (34%) said they were staying the same. Only 30 respondents reported declines in export sales. In total, 172 (85%) companies reported sales were stable or growing. When asked about profitability, 39 companies reported the export business was highly profitable, while 150 reported it was somewhat profitable or breaking even.

Companies are using a variety of methods to sell goods and services in export markets. Direct sales by telephone was the most prevalent method, used by 105 or 51% of companies, followed by 78 or 39% of companies using sales representatives. Table 3.7 provides a breakdown of the procedures used in exporting.

**Table 3.7 Methods of Export Sales Procedures**

| Export Procedure Used* | Number of Companies |
|---|---|
| Direct sales by telephone | 105 |
| Direct sales online | 79 |
| Through use of sales representatives | 78 |
| Through a distributor | 65 |
| Through value-added resellers | 47 |
| Through a joint venture with another business | 44 |
| Through a branch or subsidiary office in another country | 24 |
| Other companies | 22 |
| Through a licensing agreement | 21 |

* Note that the companies reported using several methods

## *Reasons for Not Exporting*

Respondents were asked an open-ended question about what was preventing their business from exporting outside of Northern Ontario. Of the 196 non-exporting companies, half of them were not exporting for structural reasons, including the nature or size of the business, geographic challenges, or a lack of interest in exporting. Nearly 40% of non-exporters cited operational reasons, such as financing, marketing, and human resources issues. The balance cited a number of other reasons, such as exchange rate, not interested in expanding, currently overloaded with work, and transportation costs. A company's growth rate and the number of employees are not significant factors in preventing companies from exporting. The conclusion is that for businesses that can solve their finance, marketing and human resources issues, there is potential to export.

## *Exporter versus Non-Exporter Results*

The results of exporting companies in comparison to non-exporting companies are notable. In terms of revenue growth, approximately half of the surveyed companies reported they were growing. In comparing exporting versus non-exporting firms, a significant difference is seen between the nearly 60% of exporting firms reporting growth and only 40% of non-exporting firms reporting the same. Another significant difference is that 25% of exporting firms reported stable sales compared to 41% of non-exporting companies. There was no difference in the proportion of firms with declining sales, which was approximately 17% for both exporting and non-exporting firms.

In terms of rapid growth, 25% of exporting firms compared to 15% of non-exporting firms reported rapid growth. Nearly 60% of firms with 10–50 employees were exporters and over 80% of firms with 51 or more employees were exporters. Generally speaking, exporting firms were larger than non-exporters in terms of total sales ($6 million versus $3 million), number of employees (37 employees versus 12), and hiring in the past 12 months (6 employees versus 3).

## *Perceptions of Challenges*

All respondents were asked open-ended questions regarding the keys to exporting success as well as what they perceived to be challenges to exporting. Responses to this question were unprompted. In other words, respondents were asked what were “top of mind” challenges and success factors; they were not given a list from which to choose.

Topping the list of challenges was the cost of shipping goods, chosen by 26% of respondents, followed by factors associated with distance and/or location (17%), and means of transportation (13%). The only significant difference between exporters and non-exporters was that a higher proportion of non-exporters considered distance/location a challenge. Although exporters recognized that the cost of shipping was an issue, their perception of the difficulties associated with distance diminished once they had begun exporting.

In terms of operations, challenges to exporting out of Northern Ontario were identified as sales/marketing (11% of respondents) and shortage of labour (10%). Competition was cited as a challenge by 8% of firms and financing, by 7%. A further 7% listed marketing-related exposure or recognition as a challenge. Federal support was a challenge for only 5% of respondents, and taxation for only 3%.

Respondents were also given a list of factors that might pose a challenge to exporters. They were asked to rate those factors on a scale ranging from 1 (not challenging) to 7 (very challenging). The most highly rated challenge for Northern Ontario businesses (both exporters and non-exporters alike) was transportation/insurance costs, followed by obtaining government assistance/incentives. The least-challenging factor identified was foreign currency exchange issues. In terms of differences between exporters and non-exporters, most non-exporters identified the factors as more challenging. In fact, of the 14 challenge factors listed, non-exporters found 11 of them to be significantly more challenging than exporters.

Table 3.8 illustrates the average challenge rating for the 14 factors. Factors rated significantly higher by non-exporters are indicated by an asterisk (*). The three factors that were rated the same by both groups were transportation costs, obtaining assistance (both rated as challenging at 5.1 and 4.9 respectively), and foreign currency issues (rated at 3.5).

**Table 3.8 Challenge Factors Perceived by Exporters and Non-Exporters, on a Scale of 1 to 7**

| | Average among 400 Respondents | Average among 204 Exporters | Average among 196 Non-Exporters |
|---|---|---|---|
| Information to analyze markets | 4.3 | 4.0 | 4.6* |
| Managerial time to deal with export issues | 4.4 | 4.0 | 4.7* |
| Financial resources for exporting | 4.4 | 4.1 | 4.7* |
| Human resources for exporting | 4.1 | 3.7 | 4.5* |
| Developing products for export markets | 3.9 | 3.6 | 4.2* |
| Understanding distribution channels | 3.9 | 3.6 | 4.3* |
| Transportation/insurance costs | 5.1 | 5.0 | 5.2 |
| Developing export marketing plans | 4.2 | 3.9 | 4.6* |
| Understanding exporting procedures/paperwork | 4.4 | 4.0 | 4.8* |
| Slow collection of payments from export customers and partners | 3.9 | 3.3 | 4.4* |
| Obtaining assistance and incentives from government | 4.9 | 4.8 | 5.1 |
| Understanding the different habits and attitudes of export customers and partners | 4.2 | 3.8 | 4.6* |
| Foreign currency exchange issues | 3.5 | 3.4 | 3.7 |
| Tariff and nontariff barriers | 3.9 | 3.5 | 4.3* |

* indicates significant difference
Scale: 1 (not challenging) to 7 (very challenging)

By dividing the exporters into two groups — those exporting less than 40% of their revenue and those exporting more than 40% of their revenue — those in the <40% group stated that finding the managerial time to deal with export issues and human resources for exporting were significantly more of a challenge.

Companies with declining export sales found that developing products for export markets and transportation/insurance costs were significantly more of challenge than did companies with growing export sales.

These results indicate that before they had prepared for and carried out an export program, business owners feared that issues such as understanding exporting procedures/paperwork, having the managerial time to deal with export issues, and having enough financial resources to export would be some of the challenges they would face. After they became export ready — that is, after they had researched the market opportunities and their capacity to expand, identified the necessary financial and human resources, and developed an export program — the magnitude of "challenge" associated with the majority of factors decreased significantly. Since there was no significant difference in these factors between less-experienced exporters (<13 years) and those older (>13 years), the change in perception had to take place in the early stages of the exporting experience.

## *Key Success Factors*

Respondents were asked an unprompted question regarding success factors in selling goods and services outside of Northern Ontario. Having a quality, in-demand product or service was a key to success to the highest proportion of respondents (26%). Having local representatives or partners was the next-highest, at 15%. Other success factors identified were:

- being price competitive, 14%;

- having advertising exposure, 12%;
- having qualified personnel, 10%; and
- having fast service and delivery, 8%.

Factors such as reputation, market research, financial resources and others were cited by 6% or less.

There was a significant difference between exporters and non-exporters about which of the key factors was of utmost importance to success. For example:

- 32% of exporters versus 19% of non-exporters indicated having a quality, in-demand service or product as important;
- similarly, 20% of exporters versus 10% of non-exporters identified having local representatives or partners as important;
- 15% of exporters versus 8% of non-exporters identified advertising as key; and
- 11% of exporters versus 5% of non-exporters emphasized fast service/delivery.

Clearly, exporters had different views of what the keys to success were. There were, however, no other significant differences when companies were grouped according to their age and size, and whether their sales were growing or declining.

## *Rapid-Growth Exporters versus Slow-Growth Exporters*

A small group of exporting firms identified themselves as having rapid growth. When compared with other exporters, this group found it significantly less difficult to develop products and marketing plans for export markets. In assessing other challenge factors, this group was no different from the balance of exporters.

In terms of exporting method, rapid-growth firms were twice as likely to use a joint venture as slow-growing firms. Indeed, half of the rapid-growth exporting firms used sales representatives compared to one-third of slow-growing exporters. Rapidly growing firms were less likely to use the telephone (43% versus 53%) and more likely to use online sales (45% versus 37%). The proportional use of other sales methods was approximately the same between the two groups.

## *Conclusion*

The survey successfully reached 204 exporting companies in Northern Ontario, which is likely to represent between 30% and 40% of all exporting firms in the region. The majority of exporters were involved in some type of manufacturing; professional and other service firms accounted for the balance. Firms and their managers were evenly distributed by years of experience and there seemed to be no differences between younger and older exporting firms or owner/managers.

Nearly 85% of firms surveyed reported their business as stable or growing. A higher proportion of exporters reported rapid growth compared to non-exporters, while a higher proportion of non-exporters reported stability in revenue.

Exporting is correlated to business growth. In terms of size, 60% of firms with more than 10 employees in the selected industries were already exporting. It is interesting to note that once a firm began to export, the magnitude of the perceived challenges to exporting decreased significantly for most challenge factors. A small group of rapidly growing exporters tended to use joint ventures and sales representatives in higher proportion to other exporters. Companies in this group were also more likely to use the Internet as a sales channel.

In summary, there is a small group of exporting companies in Northern Ontario. These firms are likely to have more than 10 employees, be in the manufacturing sector, and are reaping the benefits of faster growth. What differentiates them from non-exporters is that they were somehow motivated to investigate the steps necessary for export sales. This required an assessment of markets, company capability and resources, as well as risk. Following this investigation (whether formal or informal) was a decision to try exporting. Perhaps there were some early missteps, but the fact is they started and now, as experienced exporters, they find the challenges to be significantly less than those who have no export experience.

# Chapter 4 State of Exporting in Northern Ontario

Globalization of trade brings opportunities for countries (and regions) to increase their exports. Businesses in countries (and regions) that participate in liberal trade can enjoy above-average growth and create a wealth of benefits at home. Research, including results from this study, indicates that exporting firms have more rapid growth than non-exporting firms. Rapid growth is apt to result in higher net income and return on assets. A firm producing and marketing internationally likely achieves efficiencies through increased volume and lower costs, it learns more from international competitors and navigating international business environments, and this knowledge is imparted to employees who become a key to success. The benefits of exporting are obvious; the question is: “why are more firms not engaged in exporting?”

There are a number of reasons companies may not choose to export. One of the prime reasons is the level of managerial expertise and motivation. It may be that the company or manager has not reached a level of performance that would create a reasonable chance for success in export markets. This could be for a number of reasons: the company’s management team is too small to handle the additional requirements of exporting and therefore it is not “ready” to export, the firm’s products/services are not particularly different from or of higher value than competitive products, and/or the manager may not have the ability or motivation to lead export activities.

An obvious inhibiting factor is the difference in the cultural, business and regulatory environments in foreign markets. It is one thing for business owners/managers to be successful in a familiar market, where they have lived or worked the majority of their lives. In moving to an export market, all the rules, factors for success and failure, as well as access to market information can change. This is a challenge akin to starting from the ground up and is not something that appeals to all would-be exporters. It may be relatively easy to start exporting, but successfully competing with required sales volumes for profit is not an easy achievement, nor is it always achievable. Companies have to assess the risk of investing in exporting because success is far from guaranteed.

Of the more than 26 000 companies in Northern Ontario, 614 or 2.3% of the total are exporting internationally. Exporters include 23% of the region’s manufacturing firms, 16% of mining firms, and 10% of firms in wholesale trade. Northern Ontario is underrepresented in terms of exporters, given that the Canadian average is 8% of firms. Manufacturers are also underrepresented, as 31% of Canadian manufacturers engage in exporting. These comparisons with Canadian averages indicate that Northern Ontario’s exporting sector is underdeveloped.

Generally, companies that engage in exporting enjoy a higher rate of growth than non-exporting firms. In this survey, a higher proportion of exporting firms reported rapid growth than non-exporting firms. A lower proportion of exporting firms reported no growth compared to non-exporting firms. These results mirror those of other export studies that indicate export firms grow up to twice as fast as their non-exporting competitors.

When considering total exports from Northern Ontario, 57% of the sample firms derived more than half their revenue from such activities and are therefore labelled export intensive. Regarding the 117 firms engaged in international exporting, 25 (21%) are export intensive. Northern Ontario exporters do proportionately well in terms of export intensity; however, if one considers only international exports, the region’s 21% lags behind the 33% Canadian average.

Exporting firms in the sample are larger than non-exporting firms in terms of average number of employees (37 versus 12), average total sales ($6 million versus $3 million), and recent hirings (6 employees versus 3). These results concur with the Orser et al study, which indicates that the propensity for companies to export increases significantly when they have 40 or more employees,. This is true particularly for manufacturing firms.

In summary, the state of exporting in Northern Ontario is underdeveloped in terms of the number of exporting companies. This picture calls for greater development. If exporting is considered to include sales outside of Northern Ontario, companies were doing exceptionally well in terms of percentage of revenue derived. If one considers international exporting only, a smaller proportion of companies were export intensive when compared to the Canadian average. In the following chapter, the challenges that contribute to this state of underdevelopment, as well as key success factors and opportunities for exploration, will be identified.

# Chapter 5 Challenges and Opportunities

Starting and operating a business is a difficult task with its own challenges. Company managers must assess the needs of potential customers in the market, marshal company resources to produce the product or service, promote the product/service to customers, and make revisions/improvements as indicated by customer/market feedback. As companies learn to operate within their chosen market, many consider growth opportunities including exporting. For half of the companies in the sample, there were structural reasons why exporting was not considered. These included such factors as the nature of the business, which may be local by definition; territorial restrictions dictated by suppliers or company mandate; size of the company; and/or management interest in staying local.

## *Challenges*

### Factors Preventing Non-Exporting Companies from Exporting

For those companies that consider exporting, the foreign business environment is complicated by factors such as distance, language, culture, and regulations. To overcome these factors, companies need to obtain sufficient financial and human resources, have some excess company capacity and accept the increased risk. Non-exporting companies that cited operational reasons (as opposed to structural reasons) identified financing, marketing, and human resource issues as some of the specific reasons they were not exporting.

In terms of funding or financial considerations, companies were interested in exporting but cautious about expanding beyond their financial limits. When asked what was preventing them from exporting, one respondent stated, “The funding to get it to the next level.” Another replied, “I have to ensure I have the budget to do this [export].” A third said, “We also would hope there is financial assistance for a company of our size to help with research and development.” For many companies interested in exporting, the financial challenge is the main hurdle to overcome.

Other companies have identified marketing as a major factor in preventing them from exporting. One respondent stated it was the “connection, contacts, and stuff like that,” preventing him from exporting. “I think it is just the cost of marketing and advertising,” added another. And along the same lines, “Getting the name out there,” was a challenge offered by a third respondent. Company managers acknowledge that marketing issues such as lack of promotion or connection with customers are obstacles to overcome before exporting can be contemplated.

Another operational area that can prevent companies from exporting is human resources. Some respondents complained about “a lack of qualified staff to allow us to do more than we already do in Northern Ontario.” Another stated, “We need … a better labour force. I think that’s a shortage everywhere.” A third added, “If I had more employees I could produce more.” Clearly, the lack of employees including skilled employees is an issue for companies considering expanding/exporting.

### Challenges Identified by Companies

All managers, whether currently exporting or not, were asked an open-ended question to identify the biggest challenges to Northern Ontario companies wishing to export. The largest proportion (35%) identified factors associated with distance/location as challenging. These might include the cost of shipping, means of transportation or general issues associated with distance/location. For example, one manager indicated it was the distance to travel to see clients that posed a challenge. Those with bulky or heavy products said, “It costs you so much money to have everything shipped.” Others stated, “Just the distance from other markets makes logistics and freight more expensive.” And for those managers aware that a relationship or connection with potential buyers and actual customers is important in business, the biggest challenge was “probably isolation, and just generally the difficulty in connecting with buyers.” It is interesting to note that a significantly larger portion of non-exporters perceived distance/location as a challenge. Once businesses began to export, however, it appears that they overcame some of the challenges of distance/location.

Marketing was another area identified as a challenge. Managers recognized that having contacts or representation are important for selling products and services. They listed issues such as “getting a network other than the Internet to sell their products, securing clients and their approval, establishing contacts in other markets, and marketing representation” as challenges. They recognized that there has to be a customer to contact at the other end of an export distribution channel and doing that is a marketing challenge.

Another significant challenge to exporting from Northern Ontario related to human resources issues such as a labour shortage. Specifically, managers said there was a “shortage of skilled labour” or a challenge to “find the right labour force and/or employees with the appropriate skills.” Human resources are a necessity to produce the product/service of a business. Managers viewed securing additional labour to support exporting as a challenge for Northern Ontario businesses.

Financing is the lifeblood of any business and not surprisingly managers also cited issues of financing, access to capital and working capital as challenges.

Table 5.1 provides a summary on the question of challenges to exporting in Northern Ontario. Of the five general exporting challenges listed, distance/location showed the greatest difference among responses between the exporting and non-exporting groups.

**Table 5.1 Challenges to Exporting**

| Exporting Challenge | Number / Percentage of All Respondents | Number / Percentage of Exporters | Number / Percentage of Non-Exporters |
|---|---:|---:|---:|
| Shipping/transportation/fuel costs | 103 / 26% | 59 / 29% | 44 / 22% |
| Distance/location | 66 / 17% | 25 / 12% | 41 / 21%* |
| Means of transportation | 51 / 13% | 30 / 15% | 21 / 11% |
| Sales/marketing | 42 / 11% | 25 / 12% | 17 / 9% |
| Shortage of labour | 38 / 10% | 19 / 9% | 19 / 10% |

* indicates significant difference

## *Key Success Factors*

All companies, both exporters and non-exporters, were asked an open-ended question: “What do you consider to be the keys to success in selling goods and services outside of Northern Ontario?” The first and obvious factor cited by more than one company in four was having a quality, in-demand product. For example, respondents replied that companies must: “have something that they want,” or have “something someone needs.” Another identified key was “removing the barriers that are in Northern Ontario. If transport is a barrier, how do you do that the cheapest?” Good service was identified by many: “Service … you'd better be able to service the product yourself.” Respondents acknowledge that part of offering good service and products is having a qualified labour force.

Having local representation in the market was another identified key success factor. Although the largest proportion of businesses in Northern Ontario found factors associated with their location as a challenge, they recognized “relationships and service” as keys to success. Attitudes such as “representation: once the customer understands [your business], you’ve made the hurdle” are the norm. They talk about “relationships … networks … connections” as keys. In the words of one motivated manager, “You’ve just got to go out there in the markets,” to start to become established.

In all cases, whether exporting or not, making customers aware of the goods/services available is a key factor. Most companies were aware of this and they answered the open-ended question about keys to success with the need for “advertising, getting their name out there, exposure, awareness and promoting themselves.” They were aware that they have to promote their product in order to sell it.

Table 5.2 provides a summary of the responses to the question on key success factors. Exporters rated all success factors much higher than non-exporters, with one exception: 14% of both groups consider price/competitive pricing to be the most important factor in exporting success. Significant differences are identified in the table with an asterisk (*).

**Table 5.2 Key Success Factors in Exporting**

| Success Factor | Number / Percentage of All Respondents | Number / Percentage of Exporters | Number / Percentage of Non-Exporters |
|---|---|---|---|
| Having a quality, in-demand product/service | 104 / 26% | 66 / 32%* | 38 / 19% |
| Good-quality products | 85 / 21% | 54 / 26%* | 31 / 16% |
| Local representatives (partners)/ contact/network | 60 / 15% | 40 / 20%* | 20 / 10% |
| Price/competitive pricing | 56 / 14% | 28 / 14% | 28 / 14% |
| Advertising/exposure | 47 / 12% | 31 / 15%* | 16 / 8% |
| Qualified personnel/labour force | 38 / 10% | 24 / 12% | 14 / 7% |
| Fast service/delivery | 33 / 8% | 23* / 11% | 10 / 5% |

* indicates significant difference

## *Opportunities*

Statistical data indicate a number of opportunities for exporters given that the Northern Ontario exporter market is underdeveloped. Even though there are factors specific to Northern Ontario that may be preventing growth in the exporter market, up to 2000 businesses could potentially export from Northern Ontario, which would be a significant increase from the present 614. While the full potential number of exporters may not be reached, the exporting community is likely to continue increasing, particularly among smaller firms.

The number of exporting firms with less than 50 employees grew by 140 firms from 2003 to 2006 (nearly a 50% increase in four years) and their average revenue also increased, from $900 000 to $3.2 million. This remarkable growth in number and revenue is indicative of the opportunities for companies in this size range. One might speculate that these companies achieved such growth because they have the flexibility to follow market trends. Likely, they are in the mining supply and service sector, as it grew by $3 billion over the same period. Furthermore, the firms are probably exporting to the United States, Asia and South America. It is anticipated that there will be more opportunities in these sectors and regions as long as the Northern Ontario mining industry remains strong.

The average exporter in the survey sample was a larger SME, with annual sales of $6 million and 37 employees. Exporting is a major contributor to growth so firms obviously start off smaller than this average figure and grow with their sales. Any firm with exportable products/services that is approaching this size, therefore, should consider exporting as a strategy for growth.

The identification of factors inhibiting exporting reveals potential opportunities for exporters. In terms of the challenges, current non-exporters cited financing, marketing and human resource issues as reasons preventing them from exporting. However, as they develop their businesses and gain experience, reputation and a positive cash flow, these challenges could be overcome. Financiers, whether bankers or private investors, want to see some indication of a company's success in domestic markets before partnering with it for increased risk in exports. Thus, the domestic producer who can demonstrate a positive track record may find opportunities in exporting. Availability of funds can also solve marketing problems in a straightforward manner, leaving only human resource issues to be addressed. In a growing economy, general and skilled labour may be scarce, so solving this problem would take some creativity as well as financial resources.

While identifying some of the challenges to exporting, opportunities for potential exporters were also uncovered. Challenges often limit access to those unable to deal with the demands of the particular situation(s), leaving the market open for competent companies possessing abilities and resources to deal with challenges in an effective manner. The largest proportion of firms identified costs associated with transportation as a challenge factor. This may be the most-significant challenge but it may also provide the greatest opportunity. Firms that can overcome the transportation issue creatively will have a distinct advantage and a better chance for success. Some simple ideas for reducing transportation costs are: sharing costs with another company shipping to the same region/customer; partnering with a company from the export region that is shipping to Northern Ontario to make use of "deadhead" capacity in trucks or containers; and exploring alternate means (e.g. rail, water) for sending large shipments. There are many other creative solutions to be investigated. Once an exporter has overcome transportation issues, other challenges appear more manageable.

In addition to marketing and human resource challenges, respondents voiced concern about the strong value of the Canadian dollar. This combination of concerns may in itself be an opportunity to boost productivity. With a high-value dollar, Canadian companies have more purchasing power in

U.S. markets. Firms may consider investing in capital assets to increase their productivity through more efficient production and perhaps less requirement for human resources.

Identified keys to success provide further opportunities for companies. The highest proportion of companies identified a marketing truism as a key to success: having a good-quality, in-demand product. The opportunity here lies in investigating demand in the export market, comparing the features/benefits of a company's product or service with that of the competition, and determining if the company would be able to promote/distribute and service the product at a competitive price.

A key component of success is having a presence in a market, whether it be local representatives or partners. Exporters in the sample who used this method for sales in foreign countries seemed to have more success (growth) than those who used other methods of distribution. The ability to tap into local knowledge may be the reason for this success.

The final opportunity — and perhaps the most uncomfortable for potential exporters — is to try something for which they do not have a "perfect" plan in place. In other words, to proceed even though some uncertainties or challenges haven't been fully resolved. Experienced exporters find the majority of challenges are less daunting once they have some experience. (Refer to Table 3.8 to review the 11 factors that are perceived as significantly less of a challenge for exporters than for non-exporters.) A manager likely begins an exporting project with a relatively higher level of concern about challenges. Once the experience has been completed, these challenges seem less daunting and eventually become part of the general exporting experience. The moral is that while it is "normal" to have some concerns about factors affecting exporting outcomes, it is better to try and gain experience with a smaller project that can be expanded than to never try at all.

In summary, the current local economy and foreign markets provide a number of opportunities for relatively larger SMEs who have a successful track record, can produce in-demand products, are creative and resourceful, and are not afraid to take some calculated risks with a small start-up, but scalable, export initiative.