

Exports and Company Growth

Turning a small company into a bigger one can be the hardest task any entrepreneur can face. It demands a solid business strategy, topnotch people, skilful use of company resources and an ability to identify promising opportunities. Those opportunities, though, aren't necessarily here at home. Once you start to look, you may find that one of the best ways to get bigger is through international trade – in a word, exporting. This white paper examines how Canadian businesses can turn to global trade to meet the challenges of expansion and open up new paths for growth.

EXPORTS AND COMPANY GROWTH

One of the biggest benefits of exporting is that it can expand and diversify both your markets and your customer base. This not only increases your sales but reduces your vulnerability to a slowdown in a particular market, including Canada's. The increased sales volume that exporting offers can also lead to economies of scale.

Equally important, though, is that exporting can help you build your capacity for developing new products, new technologies and new services that will add to the value you offer your customers. This will strengthen not only your global competitiveness but also your ability to compete in Canada. Many exporting firms discover that what they've learned abroad can translate into a much stronger market position at home.

Exporting, consequently, can be a fruitful strategy for companies across all of Canada's industrial sectors. It can be especially important for businesses that provide specialized products, technologies or expertise – since Canada's domestic market is relatively small, these companies may find that exporting is the *only* way they can get bigger. Even more traditional manufacturing firms, however, are experiencing more and more pressure to offer increasingly specialized or customized goods and services. If a company finds itself in this position, and its Canadian market is approaching saturation, exporting can provide new ways to grow.

Practically speaking, though, how and where do companies invest their time, money and energy to turn exporting into a source of growth? To find out, EDC recently investigated more than 300 businesses – split almost equally between lower-growth firms and their faster-expanding cousins – to unearth some answers. And for three-quarters of the latter companies, the number-one ingredient for success was having an international growth strategy that's integrated into the firm's overall business strategy.

STRATEGIES FOR GROWTH

Many of these companies have found that effective export strategies don't necessarily depend on direct sales to overseas customers; sometimes, the best approaches rely on partnerships with other companies. If you want to operate in the EU, for instance, you'd look for European or Canadian firms that could help you distribute or manufacture your products in Europe. Once you'd developed those partnerships, you could build on your initial success to expand farther.

A second strategy is to integrate your company into international supply chains. Many smaller Canadian businesses that follow this path are actually selling abroad in significant volumes, although not directly. Instead, they've linked into the supply chains of big multinationals that package the smaller companies' products into larger solutions, which the multinationals then sell around the world. Such indirect access to overseas markets can help smaller businesses build their capacity until they can sell directly to companies abroad.

In addition, when a smaller company's products or services are sold globally by large multinationals, the firm gains widespread exposure – an advantage that may help it gain footholds elsewhere. This strategy of expansion by participating in international supply chains can be a very effective way for a company to accelerate its growth, and to reach into new markets without having to assume all the risks by itself.

For many companies faced with a need to find new markets and customers, developing partnership and supply chain links may be vital. In fact, it is becoming increasingly difficult to do business either abroad or domestically without them. In short, seeing opportunities in international terms, not just in a domestic perspective, can be very important when a company is trying to build a business strategy for growth.

THE VALUE OF YOUR SOLUTIONS

One of the most vital elements of any growth strategy is your company's ability to understand the value it offers, and communicate that value to your customers. This starts with the recognition that you're not selling a product or a service so much as providing customers with *value in the form of solutions*. Out of that awareness comes an approach in which you work to understand your customers' problems, and then present your products or expertise as answers to these difficulties. Taking this perspective can help you determine your best partnering strategy, the product innovations you should undertake, the best place to locate your operations and what skill sets you'll need within the business itself.

The EDC research mentioned earlier also suggests that innovation has a role to play, but not only in the narrow sense of R&D. That may be crucially important, depending on the company, but there is also a broader role for innovation that includes such things as better production processes, upgraded services, enhanced worker skills and more sophisticated distribution systems – all with the goal of providing more valuable solutions for the customer.

MEETING EXPECTATIONS

It should be clear by now that exporting is a resource-intensive activity. There's a lot to learn, not just about market opportunities and potential customers but also about meeting expectations in areas such as innovation, product design and after-market service. In most markets, this means establishing both business and personal relationships that will foster your customers' trust in your reliability and in the value you offer. All this is vital, since there will inevitably be companies in those markets that compete directly with yours and will try to make *their* solutions the winning ones. But if you can build trusted business and personal connections within a market, and do whatever is necessary to understand what your potential customers want from you, your chances of growing your business there should markedly increase.

In contrast, a company will set itself up for failure if it goes to an export market solely to increase sales and doesn't bother to align its behaviour with the expectations of local customers. Some businesses, for example, simply take a product they sell in Canada, repackage it for export and ship it out on the assumption that this is how you do business abroad. With no real understanding of the solutions that will work in their new market, they almost invariably fail.

CHALLENGES TO GROWTH

EDC's research also emphasized the importance of management expertise and skilled personnel for the growth of any company. Broad entrepreneurial vision is a key asset as well, provided it focuses on providing value and solutions, rather than on the product or service itself – that is, it favours a customer-centric approach, not a product-oriented one.

But beyond that, there's an international skill set that deals with the technical aspects of exporting. Can you get the financing you need to grow abroad, for example? Does your product meet the technical standards of your new foreign market? Do you know how to deal with its customs authorities? How do you find a local lawyer to help you with tax issues?

Much of this skill set involves dealing with various kinds of challenges. Finding capital for growth is a major one; while it can be hard for smaller companies to get financing for domestic expansion, it's even more difficult to obtain cash for growth abroad. Higher-growth companies, according to the EDC research, are adept at using various kinds of government financial support to expand their sales, and this is where EDC can play a very important role. It offers [financing products](#), including export guarantees and foreign buyer financing, as well as [credit insurance](#) for risk mitigation, such as receivables insurance and contract frustration insurance. These products can help an exporter not only find more working capital, but also provide extra value that foreign customers might not find elsewhere.

Remember, though, that banks usually lend to small businesses based on the company's cash position, which simply means that you're more likely to get financing if you have a lot of cash on hand. That means taking a lean approach to business and keeping your cash reserves as flush as you can. The second important key to obtaining financing is to have long-term, creditworthy customers, since it's much easier to get a bank to finance an actual sale than a potential one.

Another challenge to growing abroad is how to comply with the standards and regulations of a prospective market. Depending on your business, this can demand a sizeable investment in product modification and services. Since that will require a detailed understanding of the market's regulatory requirements, it can be a major asset to have a partner with a thorough knowledge of the local business environment.

Finally, a company that wants to grow through exporting must have enough internal capacity to sustain that growth and to overcome the challenges it will inevitably face. It must also be willing to spend time on the business and personal relationships that are part of a successful international strategy. On the positive side of the coin, however, are the vast growth opportunities the global market offers Canadian companies, and the fact that the risks of international trade are well known and can be successfully managed. Keep this in mind, and you can create an international growth strategy that can start turning your company from a small one into a big one.

WHERE TO GET HELP

When it comes to exporting, you don't need to do everything by yourself. You can work with institutions such as [EDC](#), the [Business Development Bank of Canada](#), the [Canadian Trade Commissioner Service](#), your own business partners at home and abroad, business associations such as [Canadian Manufacturers and Exporters](#), and your own industry or sector associations.

QUESTIONS?

Call 1-866-376-3477 weekdays 8 am to 4 pm EST.
Complete an online [inquiry](#) form.

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