

*CONSULTATION PAPER ON
EXPORT STRATEGIES FOR
CANADA'S HOUSING INDUSTRY*

Prepared for the

Housing Export Strategies Task Force

Canada Mortgage and Housing Corporation
Industry Canada

Department of Foreign Affairs and International Trade
National Research Council
Natural Resources Canada

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Canada

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d'exportation pour le secteur canadien de l'habitation

CONSULTATION PAPER
ON
EXPORT STRATEGIES FOR CANADA'S HOUSING INDUSTRY

The Honourable David C. Dingwall, Minister responsible for Canada Mortgage and Housing Corporation, recently announced that a federal interdepartmental task force had been formed to develop, in consultation with the housing industry, export strategies that will help Canadian companies to compete successfully in the international marketplace and create jobs. The Housing Export Strategies Task Force is pleased to enclose a copy of the paper which has been prepared to support consultations that are being undertaken as a first step toward the development of these strategies.

The paper provides a context for the consultations and contains a cross-section of ideas that participants may wish to take into account during the consultation process. The paper also summarizes views that have been expressed by representatives of Canadian government departments and agencies, non-governmental organizations and firms engaged in commercial endeavours abroad. This material is being provided to promote a thorough discussion of all issues involved and does not necessarily reflect the federal government's views on these issues.

The paper is intended to provide the point of departure and a focus for discussions that are expected to address the gamut of international trade issues as well as possible ways to address them. The document outlines potential subjects for discussion and identifies factors that might be worth considering. It does not, however, attempt to set the agenda, define the boundaries of discussion or anticipate any conclusions that might flow from the consultations, as these are all matters for discussion.

You are invited to contribute to the formulation of the Canadian housing industry's export strategies by submitting your views on matters raised in the enclosed paper and on any additional subjects that you consider relevant to the task at hand. However, it would be most helpful if these comments could include your views on:

- ° trade issues that are likely to confront Canada's housing industry in the foreseeable future;
- ° priorities that should be accorded to resolving the trade issues that you have identified; and
- ° immediate and longer-term measures that you feel are needed to address priority issues.

You are also invited to fill out the enclosed questionnaire describing your organization's international activities and interests. This information will be used to assess the extent and scope of the Canadian housing industry's international involvement and develop a profile of firms engaged or interested in doing business internationally. It will also be used to help determine the kinds of support that can most usefully be provided by governments and others to Canadian firms engaged in, or considering, housing-related commercial endeavours in the international marketplace.

It is requested that your submissions be sent to the Task Force at the following address by mid-May 1994 in order to ensure that your views are fully taken into account as the strategy development process unfolds:

International Relations Division
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Canada
K1A 0P7

Your comments, and those of others who participate in the consultations, will be reflected in a consensus paper that will provide the basis for work undertaken during the summer months with the cooperation of international trade experts drawn from the public, private and non-governmental sectors. A copy of this paper will be sent to you as soon as it becomes available.

Should you have any questions concerning any aspect of the consultations, please direct your telephone inquiries to (613) 748-2431 and send your fax messages to (613) 748-2302.

Sincerely,



Douglas A. Stewart, Executive Director
Research and International Affairs, CMHC
on behalf of the Housing Export Strategies Task Force

Encls.

01/03/94

SURVEY OF THE CANADIAN HOUSING INDUSTRY'S INTERNATIONAL ACTIVITIES

The purpose of this survey is to profile the segment of Canada's housing industry that has international commercial interests. This is an essential first step in developing the industry's export strategies.

Please complete the attached questionnaire and return it in the envelope provided. The data that you submit will be treated in the strictest confidence and only summaries of this information will ever be published.

Provision of your company's name and complete address will ensure that you receive copies of all reports prepared on the basis of the information that you provide. This will include all documents relating to the ongoing consultations on export strategies for Canada's housing industry.

INSTRUCTIONS: Please place a check mark beside the option(s) that best describe your company and its international activities.

Protected when completed

1. PRIMARY NATURE OF THE FIRM

- Builder/Contractor (single)
- Builder/Contractor (multiple)
- Renovator
- Manufacturer of housing or building products
- Wholesaler/retailer of building products
- Provider of housing-related services
- Other (please specify) _____

2. PRINCIPAL ACTIVITIES OF FIRM

- Engaged in the residential sector
- Engaged in the commercial sector
- Engaged in both residential and non-residential activities
- Other (please specify) _____

3. TOTAL VOLUME OF BUSINESS (Total annual revenue)

- Over \$10 million
- \$5 - \$10 million
- \$1 - \$5 million
- Less than \$1 million

4. NO. OF EMPLOYEES (Full-time)

- 1 - 5
- 6 - 10
- 11 - 50
- Over 50

5. CURRENT INTERNATIONAL INVOLVEMENT

- Considering entering the international market
- Have taken steps to become involved
- Actively involved in exporting
- Other (please specify) _____

6. ANNUAL VOLUME OF EXPORTS (\$)

- Over \$1 million
- \$500 000 to \$1 million
- \$100 000 to \$500 000
- \$1 to \$100 000
- 0

7. SHARE OF TOTAL BUSINESS

- International activity accounts for 1 - 5%
- International activity accounts for 6 - 10%
- International activity accounts for 11 - 20%
- International activity accounts for over 20%

8. MARKETING APPROACH

- Acting alone
- Acting in partnership with other Canadian firms
- Acting in partnership with non-Canadian firms
- Other (please specify) _____

9. GEOGRAPHIC AREA OF INTEREST

- | | | | |
|--|---|------------------------------------|--|
| <input type="checkbox"/> U.S.A. | <input type="checkbox"/> Middle East | <input type="checkbox"/> Korea | <input type="checkbox"/> Singapore |
| <input type="checkbox"/> Mexico | <input type="checkbox"/> India and Pakistan | <input type="checkbox"/> Indonesia | <input type="checkbox"/> Thailand |
| <input type="checkbox"/> Other Latin America & Caribbean | <input type="checkbox"/> South Africa | <input type="checkbox"/> Hong Kong | <input type="checkbox"/> Taiwan |
| <input type="checkbox"/> Western Europe | <input type="checkbox"/> Japan | <input type="checkbox"/> Malaysia | <input type="checkbox"/> Australia and New Zealand |
| <input type="checkbox"/> Central and Eastern Europe | <input type="checkbox"/> China | | |
| <input type="checkbox"/> Other (Please specify) _____ | | | |

10. PUBLIC SECTOR INVOLVEMENT

- Federal agencies involved
- Provincial agencies involved
- Neither involved

11. NATURE OF GOVERNMENT INVOLVEMENT *

- Provides financial support
- Provides market intelligence
- Provides promotion
- Other (please specify) _____

* Name of program if applicable

12. NON-GOVERNMENTAL INVOLVEMENT

- Utilize consultants
- Utilize services of export associations
- Other (please specify) _____

13. OVERALL EXPORT EXPERIENCE TO DATE

- Generally positive
- Generally negative
- Other comments _____

NAME OF FIRM			
ADDRESS	NO.	STREET	
CITY	MUNICIPALITY		POSTAL CODE
CONTACT (OPTIONAL)			
TELEPHONE	AREA CODE	FACSIMILE	AREA CODE

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1. OBJECTIVES

The purpose of the federal government's housing export consultations is to engage all segments of Canada's housing industry in discussions on how it might benefit from opportunities in the international marketplace.

Within this broad objective, the consultations will be undertaken with a number of more specific objectives in view. These include:

- promoting greater awareness of the impact of international trade on housing and related activities;
- engaging the industry in a consideration of the costs and benefits of pursuing international business opportunities;
- obtaining the Canadian housing industry's perspective on issues that it associates with doing business internationally;
- ascertaining the industry's priorities among trade-related issues that it has identified;
- facilitating a discussion of strategic alternatives for accessing foreign markets where demonstrated opportunities exist; and
- securing guidance on the key issues associated with the development of international trade strategies.

* Canada's housing industry is defined broadly to include site builders and renovators, manufacturers of housing and housing components and service providers such as consultants, architects and developers.

2. PROBLEM STATEMENT

Canada's housing industry is at a cross-road as it positions itself in relation to the domestic housing demand that is expected in the future. Among site builders, for example, this positioning is taking a variety of forms, including shifting from house building to rehabilitation, renovation and conversion with the result that activities relating to existing housing have now overtaken new housing production in Canada. Some firms are also diversifying into non-residential construction or into endeavours that are peripheral to housing. However, the scope for adjustment within Canada is limited and many firms are leaving the industry altogether in the face of shrinking markets and increasing competition for the house building opportunities that remain.

For a growing number of firms, diversification into the international marketplace is an option that is being considered seriously, and in some cases, is being actively pursued. Interest in this option stems from several sources, including:

- highly-publicized manufactured housing exports that have been made into such markets as Japan;
- foreign successes that Canadian land development, commercial construction and engineering firms have had in the past;
- inroads that Canadian housing products, including manufactured housing, have made into a number of foreign markets; and
- the emergence of new housing opportunities as a result of recent international political and economic developments.

Canada has one of the world's most envied housing systems and this high international regard is due mainly to this country's leading-edge housing technologies. These technologies are potentially transferable abroad, yet there is reason to suspect that the international marketability of Canadian housing knowledge and expertise is not generally recognized. Also, major segments of the industry, such as site builders and renovators, have not developed exporting traditions or gained experience in international markets.

For most Canadian firms, diversification into international markets is a voyage into uncharted waters. Trade strategies are, therefore, critical as they provide a systematic approach for addressing the complexity, long time frames and particular risks associated with doing business abroad. Export strategies also provide a framework for addressing issues that the business community associates with international trade. Lastly, export strategies can allow the exporter access to programs that support the exploration, development, promotion and conduct of foreign trade.

3. CONSULTATION PROCESS

3.1 Background

At a recent seminar related to housing export opportunities in Central and Eastern Europe at Montebello, Quebec, a consensus emerged among participants on the need to develop strategies to guide the Canadian housing industry's international activities in the coming years. An interdepartmental task force consisting of Canada Mortgage and Housing Corporation, Industry Canada, the Department of Foreign Affairs and International Trade, National Research Council and Natural Resources Canada has been established to consult with all segments of the housing industry and to support this commitment by:

- providing the forum in which to explore any and all matters relating to international trade in housing;
- developing the substantive framework for the consultations; and
- providing expertise and technical support for the consultation process.

3.2 The Housing Industry

The housing industry is defined to include:

- commercial builders of all forms of new housing, regardless of the building processes used;
- manufacturers of housing products and components, including housing units;
- firms engaged in maintaining or modifying existing dwellings;
- developers of land and infrastructure;
- non-profit housing producers; and
- providers of housing research, consultancy and professional services.

This comprehensive view of the housing industry is being adopted because of the highly interconnected nature of its components. The involvement of these diverse elements in the consultation process is considered to be essential because the strategies that ultimately emerge may well entail the formation of strategic alliances between components of the industry.

Provision is also being made to reflect the experiences and expertise of other relevant actors in the consultation process and to include organizations that are expected to have an important role to play in implementing any strategies that are developed. These will include:

- federal and provincial agencies that have trade mandates. These will be instrumental in shaping the strategies that are being sought because of their important trade support functions;
- national housing associations, together with their provincial and international affiliates;
- organizations such as the Canadian Exporters Association, the Canadian Manufacturers Association and the Canadian Chamber of Commerce;
- financial institutions;
- experts in academic and non-governmental organizations; and
- trade consultants with housing-related expertise.

3.3 Process

The overall consultation process will consist of two main phases that will be implemented sequentially. The first phase will endeavour to engage all segments of Canada's housing industry in a consultation process that will commence with the mailout of this paper to:

- firms that have communicated with CMHC and other government departments and agencies on trade-related matters;
- housing-related firms on industry listings of Canadian companies active abroad;
- companies specifically identified by national housing associations;
- firms identified by provincial/territorial trade ministries and housing agencies;
- domestic firms identified by Canadian trade representatives abroad; and
- other housing producers such as the non-profit sector.

Those wishing to participate in the consultations are invited to comment on matters raised in the Consultation Paper as well as any other issues and potential solutions that have not been explicitly addressed there. These comments can be provided in writing or in workshops that will be held in centres across Canada. Recipients of the paper are also asked to complete a short questionnaire that will help profile the segment of the Canadian housing industry that is engaged or interested in pursuing commercial activity abroad.

A document will be prepared at the conclusion of the industry consultations and draft export strategies will be developed on the basis of this paper. These will reflect not only the essence of written and oral responses to the Consultation Paper but will include any guidance and recommendations that Canadian housing industry members felt should be taken into account in developing final strategies.

The second phase will involve discussions among national housing organizations, federal departments and agencies and other expert groups on the paper, and more specifically, on the draft strategies that emerge from the first round of consultations. The objective of these discussions will be to further develop and refine these strategies.

3.4 Timing

The consultations begin with the distribution of this paper and will be completed by the end of 1994.

4. HOUSING AND THE INTERNATIONAL MARKETPLACE

4.1 Context

Investments in the residential sector amounted to about \$40.2 billion in 1992 and about \$4.0 billion were spent on repairs and maintenance. These investments and expenditures represented approximately 13% of Gross Domestic Product and accounted for about 1 in every 10 jobs in Canada.

About 1 in every 3 Canadian jobs in 1992 was tied to exports. However, the Canadian housing industry contributed only marginally to these export-linked jobs. It is estimated, for example, that only a few hundred of Canada's more than 100,000 residential construction firms were active abroad in that year.

Most Canadian home builders doing business abroad are involved in the American market. However, some housing manufacturers are engaged in activities as far afield as Japan, Russia and South Africa and these firms are responding to niche market opportunities.

Manufacturers of prefabricated housing and building components are the most export-oriented components of Canada's housing industry. Canada also delivers significant amounts of building products to the international marketplace and services of all kinds are represented among Canadian housing-related exports. On balance, however, Canada is a net importer of many housing-related manufactured goods and services.

The Canadian housing industry is far less active internationally than its non-residential counterpart. The latter usually involves large firms that build commercial buildings, transportation and municipal infrastructure and engineering projects, usually on a turnkey basis.

4.2 Current Trends

Although residential construction and related activities have traditionally been domestically driven, important trends both in Canada and abroad are reshaping the Canadian housing industry's business outlook:

- demographic, lifestyle and other changes are occurring and are affecting housing demand throughout Canada. Similar changes are also occurring outside Canada;
- housing is appearing on the political agenda of foreign governments to an unprecedented degree. This is happening in Central and Eastern Europe, the Middle East, South Africa, the Pacific Rim, Mexico and parts of the underdeveloped world;

-
- the economic recession, economic restructuring and changes in the international marketplace have affected the economic performance and expectations of all trading countries;
 - trading relationships that are contained in the Canada-USA Free Trade Agreement and NAFTA have a potential to generate external opportunities. However, they also expose the domestic housing market to potentially aggressive and experienced foreign competition;
 - GATT multilateral trade discussions and the increasing globalization of international trade are reducing the importance of international boundaries in defining geographic areas within which Canadian businesses are prepared to do business;
 - the external value of the Canadian dollar and the level of domestic interest rates compared to those of Canada's major competitors, directly affect the competitiveness of domestic industries both at home and abroad; and
 - technological change and innovation are not limited by international boundaries. Potential buyers are sophisticated and are aware of relevant developments world-wide.

4.3 Housing Industry Impact

Housing activity in Canada is indirectly influenced by what is happening internationally since about 3 million Canadian households contain members whose jobs are tied to exports. Thus, efforts made to help the industry to better address international opportunities are likely to produce important job benefits for Canada. However, such efforts are also likely to make good economic sense from a housing perspective because:

- international markets could help to stabilize the cyclical nature of housebuilding activity and possibly lessen the impact that domestic economic cycles have historically had on the industry;
- alternative markets could help to sustain a strong domestic industry in the face of decreasing domestic demand and increasing foreign competitiveness;
- production for combined domestic and foreign markets increases the scale of production and reduces costs. This should improve the competitiveness of domestic producers in both markets;
- participation in the international marketplace exposes Canada's housing industry to new ideas, products and technologies; and
- export markets are seen by firms willing to take the risk as providing an opportunity to extend their return on investments, thereby providing an even stronger base for future investments.

5. POSSIBLE INTERNATIONAL HOUSING OPPORTUNITIES

Specific geographic markets are highly diverse and they are constantly changing in differing ways in response to domestic and international developments. The dynamics of the marketplace also differ from country to country, and indeed, may vary from region to region within countries.

Markets are also heterogeneous from a product perspective so that housing technologies that are appropriate in one market may have little application in another. In other cases, technologies may be appropriate from cost, technical and other perspectives, yet market access may be impeded by cultural, traditional or other factors that need to be addressed before an imported technology or product gains acceptance.

Exporters of similar products in the same geographic market may, in certain circumstances, approach this market in fundamentally different ways. For example, an exporter might attempt to develop a market niche that is not served by local sources, and in doing so, might compete mainly with other foreigners. In another case, the exporter might be seeking to become established in the mass market, and in this situation, the main competition would most likely come from local sources.

5.1 Traditional Markets

The Canadian housing industry's involvement in established foreign markets in the United States, Western Europe and the Pacific Rim is based largely on manufactured housing and housing components or products but the housing industry as a whole has not fully realized the opportunities that exist in these markets. Also, Canada's traditional markets, and most notably the United States, have had strong domestic housing capacities. In the current economic climate, these capabilities are well entrenched and reluctant to concede market share to foreign competition. Nevertheless, it is noteworthy that while the gains of Canadian firms might be limited to a small fraction of one percent of the total market, this can still represent hundreds of millions of dollars worth of business in large markets such as the United States.

Possible reasons for the small Canadian share of foreign housing markets include:

- the structure and competitiveness of the Canadian industry;
- absence of an exporting tradition in Canada's housing industry;
- limited interest in doing business abroad because of generally strong domestic housing demand;

-
- foreign tariff and non-tariff impediments to market entry;
 - lack of familiarity with cultural differences and differing ways of doing business abroad;
 - limited information on foreign housing opportunities; and
 - the availability of financing from commercial sources and export credit agencies.

5.2 New Opportunities

Evidence suggests that new housing demand is emerging in Central and Eastern Europe, Latin America, the Middle East, China, Korea and the newly-industrializing Asian economies. In some cases, this demand is occurring as a result of newly-acquired wealth and is being underwritten by loans from national governments and multi-lateral financial institutions. In other cases, such as the developing world, pent-up demand is reaching crisis proportions and foreign governments are being forced to respond with the benefit of funding from third party donor countries.

Responding to emerging housing opportunities may require that exporting countries provide technical assistance to importing countries because they lack key prerequisites for international transactions. Thus, for example, Canadian firms may have to be prepared, in such cases as Central and Eastern Europe and Latin America, to help establish the marketplace and exporting firms may have to bear some of the initial cost of establishing the institutional underpinning for new markets. Also, exports may need to be accompanied by significant transfers of housing technology and exporting firms may need to engage in training and demonstration if new and unfamiliar designs, products, services or technologies are being introduced.

The many new markets that have begun to open up within the last few years are being shaped by a variety of historic, cultural, social and economic circumstances and traditions and these will need to be reflected in the approaches that are taken toward individual markets. These differences make it likely that a range of strategies will need to be developed to enable Canada's housing industry to respond to new opportunities that are emerging world-wide.

6. POSSIBLE ISSUES FOR DISCUSSION

The Canadian housing industry's interest in international trade and its perception of the issues associated with doing business internationally are key to developing appropriate export strategies. Regardless of whether these issues are real or apparent, whether large or small, they will need to be addressed in one way or another in export strategies that the housing industry adopts. Some of the most often-cited issues associated with accessing international housing opportunities are outlined below.

Critical Mass

The fragmented structure of Canada's housing industry is generally regarded as not being conducive to its effective participation in the international marketplace. Small firms with limited resources simply do not have the financial base to bear the initial costs that are often involved in becoming established in international markets. It is possible, however, that ways can be found to attain the financial threshold that is considered necessary to enter and compete effectively in international markets.

Compensation

The issue of compensation is central to doing business anywhere, however, it often takes on a special dimension in an international context. Doing business abroad will inevitably entail having to consider a variety of payment options including countertrade. Guidance may need to be developed as to the forms of compensation that are viable from a housing industry perspective.

Risk Management

Risk-management is possibly the greatest potential challenge facing firms doing business abroad and it arises because of uncertainties caused by unfamiliar currencies, political systems, languages, business practices and the like. The strategies that are being sought may need to explicitly address risks of different kinds, e.g., political, currency fluctuations and specify a way of dealing with these risks through risk-sharing, hedging or some other approach to managing risks of different kinds.

Market Research

Housing market research and analysis is well supported in Canada insofar as it relates to the domestic market. This generally cannot be said of the international market, and as a result, substantial costs can be incurred in researching and identifying emerging market opportunities and these costs are often beyond the financial capacities of most firms wishing to explore foreign opportunities.

Competitiveness

The industry's overall competitiveness is determined by many factors. Some of these factors can be influenced by the firm's own activities (e.g., productivity, R&D activities) while others, such as exchange rates, are beyond the firm's control.

Trade Obstacles

Obstacles to doing business internationally can arise from a number of sources which may need to be provided for in export strategies. These obstacles include:

- unfamiliarity with local laws, regulations, procedures and customs. Gaining familiarity in these areas may require incurring significant initial costs and this information is rarely applicable to other markets;
- local procurement policies that may block access or limit the potential of any given market;
- long time frames for project development which can give rise to risks of various kinds, especially in uncertain political climates; and
- the absence of harmonization in building codes and product standards, making it difficult for exporters to know what is required in export markets.

Roles and Responsibilities

The maximization of export opportunities typically requires coordination of government and industry activities. In these circumstances, questions may arise as to what is an appropriate nature and level of government involvement in an activity whose benefits are largely private.

Resources

Resource issues will be paramount in the presently constrained environment. Consideration will need to be given to approaches that entail better uses of existing public and private resources.

7. POSSIBLE MARKET APPROACHES

Members of Canada's housing industry have approached foreign markets in different ways. These approaches have varied from reliance on the firm's own resources to approaches involving a high degree of cooperation with other enterprises.

Exporting firms have engaged in cooperative approaches with government agencies at home and abroad, with foreign counterparts, with complementary enterprises in the originating country and with financial and other intermediaries located either in Canada or the importing country. Generally speaking, the necessity for cooperation has been shaped by such factors as the nature of the export, the size and complexity of the market, ease of access to the marketplace and the cost of this access.

The following sections refer to a number of basic strategic options that have been used by firms that are active internationally. These models are by no means exhaustive and are provided to provoke consideration of all possibilities in this area.

7.1 Going It Alone

A straightforward strategy for approaching international markets involves treating these markets as a simple extension of the domestic marketplace and developing an independent approach to the market. In doing so, the entrepreneur relies on the firm's own resources and supplements these with assistance that is available from home or host governments. Multinationals such as Coca-Cola, Nestle and Sanyo, for example, have used this approach successfully, however, it is not applicable only to large firms.

Generally speaking, this approach works best if the market is specific and the exporter has major resources or exclusive access to that market. Insofar as housing is concerned, this approach is likely to be pursued where a highly specialized building product or service is being provided to a well-defined market niche and the associated financial arrangements are straightforward.

Going it alone requires access to all the financial and other resources that are needed to complete an international transaction. Its benefits include the ability to act quickly and autonomously and to benefit exclusively from any given venture.

The downside of going it alone is that risks are not shared, and as a result, losses must be wholly absorbed by the entrepreneur. From the perspective of the trading community as a whole, the disadvantage of this approach is that the experience gained in the conduct of doing business accrues only to the individual firm and little opportunity exists to develop cumulative expertise, traditions or networks that can be shared with others, and in the long run, reduce the costs of doing business internationally.

7.2 Vertical Integration

Vertical integration can be viewed as an extreme variation of going it alone and this approach is best exemplified by the approach that MacDonald Canada took to establishing itself in Moscow. In sum, this approach involved assuming full control of all aspects of the preparation and distribution of the firm's products.

The vertically integrated approach is particularly appropriate where:

- security considerations are paramount;
- essential ingredients, skills etc. are lacking in the foreign marketplace and need to be provided, wholly or in part, by the exporter;
- quantity, quality and delivery of supplies cannot be assured without assuming control over their production; and
- quality control of the end product cannot be assured without directly controlling production and distribution.

Vertical integration is usually pursued as an interim measure. Most often, it is pursued at the beginning of a trade relationship and is phased out as the availability and quality of labour and materials improve and local distribution systems achieve the desired level of reliability and performance.

The advantages of vertical integration lie in the freedom of action that it affords, the degree of insulation that it provides from unwanted external factors and influences, the ability to manage all aspects of a business venture without having to resort to outsiders and the ability to minimize risks of all kinds.

The security that vertical integration provides is not without its costs and this approach is expensive to maintain unless the firm occupies a dominant position in the market and has good prospects of maintaining this dominance. In time, however, it is probable that competition will arise that will challenge the dominance of a vertically integrated enterprise and it will become increasingly difficult to sustain this strategic approach.

7.3 Horizontal Integration

Countries that have been most active and successful internationally have in many cases accessed their foreign markets in a national 'tour de force' in which the participants in the venture approached the market in a highly co-ordinated way. Horizontal integration is typical of major turnkey undertakings in which the design, development and construction phases of a project are bid jointly by a consortium which may include key building material and service suppliers, including in some cases, management of the completed project. In many cases, governments of the supplying and/or recipient countries are party to these undertakings.

The Americans, Japanese, Western Europeans and the Scandinavians have often employed this approach in their international dealings. It has often been successful, especially where the national interest was clearly defined and where the export activity was state-of-the-art or the industry standard. This approach has been less successful, however, where markets were highly segmented and required the adaptation of a technology, product or service to serve different regional needs.

National alliances in their most extreme forms continue to exist, but are difficult to sustain in the long run because host countries are anxious to develop their own domestic capabilities and introduce as much added value as they can into imports. National alliances are also perceived to be pursuing the interests of exporters and their countries of origin and any success runs the risk of being resented in the importing country in due course.

7.4 Hybrid Strategies

Most market strategies that are used in international trade today are composites of various strategies outlined in the preceding sections. For example, participants at CMHC's Montebello Workshop found considerable merit in a team-oriented strategic option that combined the focused character of the horizontally-integrated model with the international partnership arrangement that is implied in a joint venture.

This team or consortium approach was seen to offer the possibility of supplying foreign markets for both new and existing housing with a menu of housing technologies, building products and services in which Canada had proven domestic capabilities. It was also considered that Canada would build on domestic strengths and co-ordinate public and private promotional efforts in a manner that enhances the profile, recognition, consumer appeal, confidence and the competitiveness of Canadian strengths in international markets.

It was furthermore thought that under the team concept, firms interested in doing business in a particular market would, at the very least, co-ordinate their individual approaches, and quite possibly, develop a common approach to the market in order to avoid duplication of effort, maximize the use that is made of available market information and their individual resources and achieve synergies that can result from co-ordinated action. This approach also might involve stacking private and public resources in an effort to secure the greatest possible benefit from the pool of promotional resources that are available from all sources.

7.5 Joint Ventures

The formation of working relationships between exporters and partners in the importing country is an approach that offsets some of the negative perceptions associated with vertically or horizontally integrated projects. Also, joint ventures explicitly recognize the strengths of the host country and build these into the working relationship. Generally speaking, these strengths include a familiarity with decision-makers in the local business community and a knowledge of the local business culture and environment and commercial practices.

Joint ventures imply a common purpose, complementary roles and an ability to work closely. Most often, they are enshrined in a partnership or alternative business arrangement in which the roles and responsibilities of the parties are clearly spelled out. Joint ventures between well-suited partners usually work well, however, these may take considerable time and effort to develop.

Joint ventures typically involve the exporting partner supplying the product, service or technology and most of the operating capital. The importing partner then supplies land and buildings, knowledge of the local market, access to local decision-makers, warehousing, sales and distribution. Joint ventures are invariably encouraged and often facilitated by authorities in the host country because they involve local participation, provide opportunities to generate added value in the community and promote the development of local capacities and employment.

The principal disadvantage of the joint venture is the opportunity that it affords for local firms to misrepresent themselves upon introduction and it happens frequently enough that substantial investments are lost through fraudulent partners to these arrangements. However, careful research into the backgrounds of would-be associates can usually avoid this outcome.

8. NEXT STEPS

Recognizing that the Canadian housing industry's export strategies can only be as good as the information that underlies them, the first phase of the consultation process is dedicated to discussion with all segments of the industry that have actual or potential international interests. These discussions are expected to be wide ranging, and therefore, the challenge will be to emerge from this preliminary phase with a good grasp of the elements that are most crucial to the development of viable housing export strategies. Annex I contains suggestions concerning the kinds of questions that members of the housing industry may wish to explore during the consultations.

The nature and scope of the housing industry's international activities and interests will need to be ascertained and a short questionnaire has been developed to help profile the segment of the industry that is engaged in international commerce or expecting to do so in the future. This profile will include information on the number of firms involved, their principal activities, firm size, their geographic distribution, the foreign markets most involved and the like. This information will be used to provide contextual information for the strategies being developed.

In sum, the consultations that are discussed throughout this paper are aimed at establishing a firm foundation for the development of export strategies for Canada's housing industry. These strategies will endeavour to provide members of the industry with guidance on how they may wish to approach international housing opportunities.

ANNEX I: POSSIBLE QUESTIONS FOR CONSIDERATION

The first phase of the consultations needs to generate the clearest possible statement of the industry's views in a number of key areas. The following is being provided to animate discussion in these areas.

The Industry's Goals and Expectations

The Canadian housing industry's export strategies should be developed within the context of the industry's overall goals, priorities and expectations. A clear statement is, therefore, required about the role that the Canadian housing industry's international activities is expected to play in achieving the industry's overall objectives in the years to come. Relevant questions in this area might include:

- What does the industry feel is achievable internationally in the foreseeable future?
- What is the industry's perception of the costs and benefits of pursuing housing opportunities in foreign markets?
- What contribution can international activity make toward achieving the industry's domestic objectives in the short, medium and longer term?
- Are domestic and international housing activities complementary and compatible? Are there trade-offs involved?

Housing Export Opportunities

The Canadian housing industry's international involvement reflects the industry's assessment of its current options, the location of existing opportunities and its capacity to respond to perceived opportunities. Relevant questions in this area might include:

- What international opportunities does the industry as a whole perceive? What opportunities exist that affect only individual segments of the industry? Is there any complementarity in these opportunities?
- What is the geographic distribution of opportunities that are perceived? Where should the industry's international efforts be targeted?
- What are the industry's strengths and weaknesses? What scope is there for improvements and how can improvements best be effected?

Housing Export Issues

Export strategies that are on target will need to address the issues that the industry associates with doing business internationally. Thus the exploration of potential issues lies at the core of the first round of the consultation process. Questions that could provide insights in this area include:

- Why have some segments of the industry been more active internationally than others in the past?
- What concerns does the industry have at the present time about pursuing opportunities abroad?
- Are there factors that inherently place Canadian firms at a disadvantage in relation to major foreign competitors?
- What are the problems, impediments, risks, etc. that need to be overcome to make trade economically viable? What are solutions that have effectively addressed these issues?
- What issues are common to the housing industry as a whole that could provide a basis for unified export strategies? What issues apply only to individual segments of the industry?
- What specific measures are needed to overcome individual problems?
- What will it take to make international housing markets more attractive to Canadian firms?

The Industry's Trade-Related Priorities

Resource constraints may make it difficult to address all of the issues that will be identified during the consultations, and therefore, priorities may need to be established. The following questions might be helpful in this regard.

- What priorities does the industry attach to specific issues identified during the consultation process?
- What are possible trade-offs in assessing and addressing priorities?
- Which among the various actors involved should play leading roles in addressing specific priorities? What scope is there for cooperative action?

The Industry's Preferred Market Approaches

The industry's assessment of different market approaches is central to the design of appropriate strategies, and therefore, information needs to be secured on the industry's experience internationally. Also, the external experiences of the non-residential construction industry, housing product producers and building-related service providers such as architects may be helpful in evaluating marketing options. Questions that may be helpful in identifying preferred market approaches include:

- What concrete experience does the industry have that could provide guidance in developing its export strategies?
- Are there common factors among Canadian firms that have enjoyed successes in export markets that new players can learn from?
- What housing market approaches are effective domestically and are potentially transferable to external markets?
- What value does the industry attach to trade missions, market intelligence provided by overseas trade posts, demonstration projects, trade fairs and other such strategic elements as potential generators of foreign business?
- What are the lessons to be learned from foreign firms that are operating successfully in Canada?
- What kinds of partnership arrangements between firms, and between the public and private sectors, does the industry see as being most workable and worth pursuing?