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Final Report

**Export Needs and Challenges of
Small and Medium Sized Enterprises in
Newfoundland and Labrador**

Prepared for

Atlantic Canada Opportunities Agency

and the

11101

**Government of Newfoundland and Labrador
Department of Industry, Trade, and Rural Development**

Funded by

**Canada / Newfoundland Agreement
on Economic Renewal**

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March 2001

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Executive Summary

This study was funded by the Canada - Newfoundland Agreement on Economic Renewal and was overseen by a Steering Committee composed of representatives of the Atlantic Canada Opportunities Agency, Industry Canada, and the Government of Newfoundland and Labrador Departments of Development and Rural Renewal and Industry Trade and Technology (now combined as the Department of Industry, Trade and Rural and Development). The aim of the study is to identify the needs and challenges being experienced by small and medium sized enterprises (SMEs) in Newfoundland and Labrador in developing and expanding exports. Following on a survey commissioned by the Regional Trade Network in 1998 to provide quantitative data on the current and future exporting activities of SMEs in the Province, this study provides - through qualitative information - insight into these export activities, the associated experiences of SMEs in developing exports, and the difficulties they encounter. The study results are intended for use by the sponsoring government departments and agencies, as well as several co-operating industry associations, to develop and implement appropriate policies, programs, and initiatives to help address these export impediments and, thereby, to accelerate export growth.

The primary source of information for this study was a series of in-depth personal interviews with 45 SMEs supplemented by a series of ten focus group discussions involving another 32 SMEs. The participating SMEs were selected to be representative of eleven different sectors encompassing manufacturing, environmental, information technology, biotechnology, innovative technologies, fisheries and aquaculture, cultural industries, mining, forestry, agri-foods, and the petroleum industries as well as the West Coast, Central, Avalon, Eastern, and Labrador regions of the Province. Additional consultations were held with a further 39 people from government, industry associations, Memorial University, and elsewhere having diverse interests and/or roles in business and trade development.

The growth in exports by Newfoundland and Labrador SMEs demonstrated in recent years indicates that some companies have recognized and are rising to the challenges and opportunities of the changing global marketplace. This growth in exports by SMEs has in large part been based on market opportunities in the US driven by strong demand, access under the North America Free Trade Agreement (NAFTA), and very favourable currency exchange rates. Other companies have not realized the opportunities available for developing exports or are experiencing difficulties in exploiting them. These difficulties are organized and presented and within common themes:

Commitment to Exporting - SMEs that are successfully exporting have a strong understanding of the time, effort, financial and human resources, as well as the time frame required to achieve success. These companies have prepared themselves by ensuring that they are well informed and that the necessary resources are available over the long term. Most SMEs which are struggling

with their export development suffer from this lack of long term perspective and/or their inability to put needed resources in place for the period required.

Management Resources - SME's in Newfoundland and Labrador are frequently very small and are founded primarily on a product or service idea derived from the technical skills and/or insight of their principals. These SMEs consequently lack a range of capabilities in business management and marketing, particularly in export marketing and do not have the financial resources to obtain needed help.

Financial Resources - SMEs in the Province are for the most part undercapitalized. Initially companies tend to focus on developing product and production capability and often exhaust available sources of capital before they can build markets and generate revenues. They also tend to underestimate the time, effort, and associated funds required to develop markets, and in particular, export markets. While funds are more readily available for plant and equipment from government and banks, there is little assistance available for export market development activities, product development, and commercialization. Newfoundland and Labrador firms are also severely disadvantaged in accessing equity.

Market Relationships - Different approaches are required in developing effective export markets depending on the nature of the product or service, the target country and customers. For new exporters, identifying and establishing the most appropriate approach(es) is problematic and consumes both time and money.

Transportation and Logistics - For some exporters, particularly those selling heavy, bulky goods, lack of access to efficient transportation links and the high cost of transportation from the Province impose significant competitive disadvantages. Efficient transportation links are essential to meet "just in time" delivery requirements demanded by many export markets. While high revenues from exporting - particularly to the US - as well as availability of lower cost back-haul capacity are mitigating factors at present, these circumstances could disappear in future creating a severe export impediment. In some cases, this might be sufficient to cause SMEs to curtail exports or to relocate closer to markets. Lack of cost efficient linkages also are precluding entry into certain offshore markets. Other related issues of concern include transportation within the province and customs regulations and clearance.

Research and Development - SMEs in many sectors lack expertise and facilities to help them to conduct R&D into new products and services directed at new export market opportunities.

Quality - Establishing and maintaining quality required by export markets and customers is a challenge for some SMEs in terms of identifying and implementing appropriate procedures and

controls. In some case, the lack of such measures has resulted in loss of markets and/or revenues while conversely, other companies have built markets based on quality. SMEs also need help where quality control and assurance standards such as ISO are a prerequisite to entering export markets.

Role of Governments in Export Development - Governments are perceived by SMEs to perform several essential roles in export development. One such role is in providing information and related support services to potential exporters on the processes and considerations involved in exporting. While there are numerous sources of such information and services, many SMEs still are not aware of these and how best to access them. A second role is in providing financial support for export development activities. The primary message is that more assistance is needed over longer periods particularly for market development, product development, and commercialization activities. The third key role performed by government in developing exports is in organizing events and initiatives such as trade shows and trade missions. The value of these events varies according the needs of the individual companies and special attention must therefore be taken in their planning.

As well as a detailed discussion of these themes, export needs and challenges are also analyzed on an individual sector and regional basis.

1.0 Introduction

This report has been prepared by Innova Quest together with its consulting partners for this project. - Connections Research and Management by Design - for the Canada - Newfoundland Agreement on Economic Renewal. The study was managed by a Steering Committee led by the Atlantic Canada Opportunities Agency (ACOA) with participation from other Federal and Provincial departments which share a common mandate in promoting and supporting the development of exports by small business in Newfoundland and Labrador. These agencies are:

- Industry Canada (IC);
- Department of Development and Rural Renewal (DDRR)*;
- Department of Industry Trade and Technology (DITT)*.

* now combined as the Department of Industry, Trade, and Rural Development

The fundamental objective of this study is to explore in detail the export activities and experiences of small and medium sized enterprises (SMEs) in Newfoundland and Labrador and from this information describe the specific challenges and needs these SMEs face in developing and growing exports. The results are intended to provide each of the participating government departments with insight and understanding upon which to develop and implement appropriate policies, programs, and initiatives which will expand SME export activities within the Province and accelerate the growth of these companies. The information will also be used by industry associations to assist them in developing the export potential of their members.

In the context of this report, the term 'exports' refers to goods and services sold outside Canada which:

- originate with companies headquartered in the Province;
- are a resource originating in the Province and/or have a significant value added within the Province.

For the purpose of this report, firms which are trading outside Newfoundland and Labrador but not outside Canada, were not excluded from consultation.

Exports have historically and consistently been a major contributor to the Canadian economy. Most of the value is derived, however, from the export of natural resources. The same is true in Newfoundland and Labrador. Exports from the Province to other countries amounted to just under \$3 billion in 1999. Just five resource industries - refined petroleum products, fish products, newsprint, iron ore, and crude oil - accounted for 93.5% of this amount.

The global trend towards freer trade which has evolved over the past decade has meant that many of Canada's natural resources now face much greater competition in world markets, often from much lower cost producers in the third world. This globalization of markets has also prompted a transition in economic focus to more knowledge based and value-added activities, particularly in

more developed countries. SMEs play a significant role in developing both knowledge based and value-added goods and services. Canada has realized the importance of SMEs in refocusing its export activities to meet the opportunities and challenges of the new global economy and to this end is working with provincial governments to encourage and support the development of export activities by SMEs.

Each level of government presently offers a range of export services and support programs for SMEs through different departments. At the federal level, Industry Canada and the Department of Foreign Affairs and International Trade (DFAIT) share the primary mandate for trade development and perform complementary, predominantly service roles to business. Team Canada Inc. (TCI) refers to the collaboration between twenty Federal departments and agencies established to make it easier for businesses to get information and services from government to take advantage of international business opportunities. Team Canada Inc.'s priorities are to increase market access, to improve export capability and preparedness, and to encourage international market and investment development. ACOA is a participating agency in Team Canada Inc. and has established export development as a strategic priority for its activities in Atlantic Canada. At the Provincial level, the responsibilities for export development have now been consolidated within the Department of Industry, Trade, and Rural Development. These responsibilities include trade issues and development of export capability at the grass roots level with SMEs through its provincial network of regional offices and associated Regional Economic Development Boards (REDBs). The Regional Trade Networks are partnerships of Team Canada Inc. members with provincial departments and agencies aimed at increasing exports by strengthening services needed by active and potential exporters. The Regional Trade Network in Newfoundland and Labrador is known as Trade Team Newfoundland and Labrador.

While exports by SMEs have grown significantly in recent years, the departments and agencies involved in this study want to facilitate and accelerate this growth by increasing both the number of Newfoundland and Labrador SMEs exporting and the associated value of exports from the Province.

Nationally, a study conducted by Team Canada Inc.¹ indicates that the availability and delivery of programming based on indicated client needs may vary significantly across Canada. Specific gaps in the delivery of the program are identified in areas such as:

- skills development, which is critical to moving potential exporters through the early export preparation stages;
- export counseling for early stage clients;

¹ Team Canada Inc. Domestic Services Team, "Analysis of Exporter Development Services - Interim Report", August 1998.

- an overlap in export counseling for export-ready clients, as this area is seen as bringing recognizable results.

The report indicates that the interaction must be moved to the earliest stages of the exporting process in order to ensure that more SMEs are provided the opportunity to explore their export potential, and to encourage them to do as much preparation as possible before they depart on export missions.

Several surveys and analyzes have been undertaken in Newfoundland and Labrador over the past several years to identify issues and challenges impeding SMEs in export development. A 1998 survey examined export target markets, trade barriers, and related needs for a selected sample of Newfoundland and Labrador SMEs². Another survey conducted in 1996 focused specifically on the export readiness of companies in the Province's technology sector³. Exporter issues identified include lack of working capital, price competition, distribution, lack of information on markets, trade regulations/practices, and product issues. Lack of market development assistance, lack of export related training, limitations on human resources, distribution, financial arrangements, language differences and transportation were cited as problems for potential exporters. The surveys did not, however, explore the precise nature and extent of each problem or the underlying reasons why these problems existed.

The specific objectives of this study then are:

1. To collect qualitative information from SMEs in Newfoundland and Labrador through a series of in-depth consultations with regard to their past and current export activities and experiences, the attitudes of these SMEs with regard to exporting within the context of their business, the specific challenges these companies face in developing or growing exports, and the role that governments play, or should play, in providing assistance;
2. To ascertain through another series of consultations, the perception of government officials involved in business and trade development as well as industry associations regarding their respective roles in promoting exporting, export challenges facing SMEs in Newfoundland and Labrador, and the effectiveness of current export development policies, programs, and initiatives; and,

² Omnifacts Research, Trade Team Newfoundland and Labrador Export Survey, Report on Findings, Final Report, [presented to] Department of Industry, Trade and Technology, Atlantic Canada Opportunities Agency, Industry Canada, March, 1998.

³ Newfoundland and Labrador Association of Technology Industries, Export Readiness Survey, 1996.

3. To analyze the information provided to identify common issues and themes as well as any sectoral or regional issues and describe these in detail.

Section 2 of this report describes the methodology employed to collect and analyze the information for this report. Section 3 presents an overview of the companies consulted for this study and an analysis of common issues identified from the information collected. Section 4 examines export issues particular to each of the sectors encompassed by this study within the context of businesses activities and constraints in each sector. Section 5 provides a brief summary of observations.

2.0 Methodology

A three-phased approach was adopted for this study consistent with that suggested by the Steering Committee:

- **Phase 1** focused on establishing the degree of information which is known about the nature and scope of the issues;
- **Phase 2** focused on preparing for and conducting consultations with SME's;
- **Phase 3** focused on compiling and analyzing the information gathered from the consultations.

In **Phase 1** a search and review was performed of all relevant work done on this subject for which there is documentation. Reports were provided by the Steering Committee and some additional materials were identified and accessed through the Internet and other means. Very little information was found that was of direct value to this assignment.

A series of consultations was organized and conducted with federal and provincial government officials involved in export development and trade issues. These took the form of informal roundtable discussions as well as some personal interviews. Agencies participating include Industry Canada, Atlantic Canada Opportunities Agency, Export Development Corporation (EDC), Department of Industry, Trade, and Technology, and Department of Development and Rural Renewal. Each round table discussion was led by a member of the study team while another member acted as recorder.

Two other round table discussions were organized with representatives of various industry associations or other organizations that have a strong involvement with an industry sector. Participating in the first were the:

- Alliance of Manufacturers and Exporters of Newfoundland (AMEN);
- Newfoundland Ocean Industries Association (NOIA);
- Newfoundland Environmental Industries Association (NEIA); and,
- Newfoundland and Labrador Association of Technology Industries (NATI).

The second was comprised of:

- Heritage Canada;
- Newfoundland and Labrador Film Development Board;
- Newfoundland Chamber of Mineral Resources;
- Newfoundland Music Industry Association;
- Craft Council of Newfoundland and Labrador;
- Bio East (an organization associated with the Genesis Group, representing the biotechnology sector.)

Representatives of industry associations in other sectors within the scope of this report could not be contacted or were not available to participate. A number of additional informal personal discussions were conducted by the study team with other organizations and key people considered to have a strong interest or knowledge of exporting issues; for example, certain faculty members of the Memorial University School of Business.

These consultations with government officials, industry associations, and others focused on known business and export development issues within the various sectors represented, the role and adequacy of government policies, programs, and initiatives in this regard, the roles of the organizations represented in developing exports, and suggestions for improvements. Participants were asked to identify critical questions that should be addressed by this study and the information needed for this purpose. They were also asked to suggest a number of appropriate companies within their sectors or areas of interest that could contribute to this study.

Phase 2 focused on preparing for and conducting consultations with SME's. This involved identifying and contacting appropriate companies to invite them to participate, scheduling appointments and arranging travel logistics, developing an approach to soliciting information from each company, and actually conducting the consultations.

In compliance with the Terms of Reference, information was gathered through a series of in-depth interviews with senior management of SMEs as well as a series of focus groups involving senior representatives of SMEs participating in an open forum. The interviews were intended to provide an abbreviated case study of each company, providing:

- insight into the background of the company;
- the nature of its business;
- its current activities and success;
- its assessment of its competitive position and its consequent future direction;
- the role of exports in its current and future activities and its export experiences;
- the associated needs and challenges it faces;
- its experience with government programs and/or services; and,

- its perspective on how government might assist with its business and export growth.

The focus groups were intended to expand upon this knowledge base without incurring the same level of effort by focusing on the last four items and not dealing with the others which participants might be reticent to discuss openly in the presence of potential competitors.

Another requirement of the Steering Committee was that the consultations involve up to 40 company interviews and at least five focus groups. Furthermore, these interviews and focus groups were to be selected and organized to ensure regional representation from the West Coast, Central, Eastern, Avalon, and Labrador as well as sectoral representation using eleven sectors identified in the Province's Renewal Strategy for Job and Growth. These sectors are manufacturing, environmental, information technology, biotechnology, innovative technologies, petroleum, mineral products, forestry, fisheries and aquaculture, agri-foods, and cultural. Tourism was specifically omitted upon the instruction of the Steering Committee because it does not fit the definition of exports adopted for this study. In addition, consideration was to be given to selecting a cross section of companies at different stages of export development, including experienced exporters, new exporters, export-ready companies and potential exporters.

A requirement of the Steering Committee was that interviews should not take the form of a simple survey, with standardized questions. Such surveys are generally based on the assumption that they encompass all the issues of importance and that they have done so correctly and adequately. The extent and accuracy of information obtained by this method is, therefore, limited by the questions asked. Such surveys also do not provide insight into the underlying reasons behind the data collected or place the data within any particular context or circumstances.

To avoid this, it was agreed that the approach to information gathering would involve engaging the companies in a dialogue which would cover key information requirements but would also have necessary flexibility to explore additional issues and ideas as they emerge. This approach enables export issues and problems to be assessed in the context of the evolution of the firm and/or the firm's exporting strategy. There is a trade off in this process, as the number of SMEs required by the Terms of Reference to be interviewed for this study is insufficient to provide any statistically significant or necessarily representative results. The qualitative nature of information also introduces inconsistencies in the response to key information requirements making it difficult to compare the response of one company with any or all of the others.

To aid in conducting the interviews and focus groups, a guide was developed for the interviewer or focus group leader to ensure that all key information requirements were raised without unduly directing or limiting the discussion. A copy of this guide is provided in Appendix A. Many participants limited their responses to some key information requirements, however, either because

they did not want to reveal information or because they preferred to expand on another area of more importance to them.

The study team, anticipating difficulties in bringing together a focus group in each region representative of the sectorial and geographic diversity within the region, undertook to try to organize at least two focus groups in each region and, where appropriate, to hold these in different communities. Where focus groups could not be organized, efforts were made to contact individual companies and solicit their input. Because of the concentration of SMEs in the Avalon region, four focus groups were organized in the St. John's area.

A master list of candidate companies for interviews or focus groups was compiled from a variety of sources to ensure geographical and sectoral representation. These included databases maintained by the Study Team, government departments participating on the Steering Committee, and industry associations. Input was also sought from officials in regional offices of ACOA and DRRR as well as Regional Economic Development Boards, local Boards of Trade, and Chambers of Commerce. Some additional names were suggested by companies contacted during the process of conducting consultations. The master list was established in a spreadsheet to enable sorting by sector, geographic region, and export status (where this was known).

Companies were chosen for interviews and focus groups to ensure compliance with representational criteria as well as on subjective criteria based on previous knowledge of the company such as the anticipated level of co-operation, insight, and information likely to be forthcoming. Moreover, it was recognized by the study team from the outset that not all companies would be willing to participate in this study or would necessarily be available at mutually acceptable times. About 60 companies were, therefore, initially selected for interviews to allow for such attrition. The list of all companies interviewed or which participated in a focus group is provided in Appendix B.

All potential participants were sent a letter under signature of senior officials from ACOA and DITT briefly describing the study and its goals, soliciting their participation, and indicating that they would be contacted by the study team in this regard. The study team followed-up by telephone to confirm the companies willingness to participate and to co-ordinate a time which would be acceptable to all parties. Up to four attempts were made to contact individual companies for this purpose. In several instances, companies did not show despite having previously committed to attend. All interviews were conducted by a single member of the study team while each focus group was led by a member of the study team while another member acted as recorder. Travel to regions other than the Avalon was arranged so that all interviews and focus groups could be completed within the region in one concerted effort. This approach minimized the time and costs involved and ensured that the project was completed within the allotted budget.

Phase 3 focused on compiling and analyzing the information gathered through Phases 1 and 2. Notes from each of the round table discussions, case study interviews, focus groups and supplementary interviews were compiled and individually summarized. These were then used to synthesize common experiences, issues and needs together with resultant impacts.

3.0 Presentation of Information Collected

3.1 Profile of Participating Companies

This study set out to examine exporting by SMEs in Newfoundland and Labrador across a range of sectors and geographic regions. In terms of geographic distribution, all regions of the Province were represented in the study, although there were relatively few companies from some regions. This was due to difficulties in contacting companies and arranging attendance at either interviews or focus groups, and also reflects the small number of SMEs in some regions of the Province which are exporting or export ready.

As the focus of this study is on the exporting activities of SMEs as defined in Section 1, the exporting activities of large companies, multi-nationals, branch plants, and companies using extra-provincial manufacturing have been excluded.

Table 1. Summary of the Status of SMEs Participating in this Study

| | Status | Avalon | East | Central | West | Lab | Total |
|---------------------|----------------------|-----------|-----------|-----------|-----------|----------|-----------|
| Interviews | Established Exporter | 17 | 3 | 2 | 4 | - | 26 |
| | New Exporter | 3 | - | 2 | 3 | - | 8 |
| | Export Ready | 3 | 1 | 2 | - | - | 6 |
| | Potential Exporter | 1 | 1 | - | - | - | 2 |
| | Not Exporting | 2 | - | - | 1 | - | 3 |
| Sub-Total | | 26 | 5 | 6 | 8 | - | 45 |
| Focus Groups | Established Exporter | 15 | 2 | - | 2 | - | 22 |
| | New Exporter | 1 | 1 | 1 | - | 1 | 2 |
| | Export Ready | - | 1 | - | - | - | 7 |
| | Potential Exporter | 1 | 1 | 2 | 1 | 1 | |
| | Not Exporting | - | - | 1 | - | 1 | |
| Sub-Total | New Exporter | 17 | 5 | 4 | 3 | 3 | 32 |
| Total | Export Ready | 43 | 10 | 10 | 11 | 3 | 77 |

There were 77 SMEs involved in this study, representing a wide range of exporting maturity and preparedness. Table 1 summarizes the distribution of these companies in terms of their export status and geographic distribution. 45 companies were interviewed directly and another 32 took

part in a series of focus groups. The size of the companies varied from very small (1 to 10 employees) to over 200 employees. Of the 35 companies which provided employment figures, the average size was 37 employees with 14 of the companies having less than 10 employees.

The present study also looked at SMEs from various sectors within the provincial economy. Of the 45 companies interviewed, 12 could be classified in more than one sector. For example a company working in the environmental industries sector with a focus on the offshore oil development could be classified in both of these sectors. Table 2 provides a breakout of interviewed companies by sector, including those that were classified in more than one sector.

Table 2. Classification of SMEs by Sector

| Sector | Interview SMEs | | Focus Group SMEs | |
|-----------------------------|----------------|-----------|------------------|-----------|
| | Primary | Secondary | Primary | Secondary |
| Agri-foods | 6 | | 2 | |
| Biotechnology | 2 | (1) | - | |
| Cultural Industries | 3 | | 2 | |
| Environmental | 5 | (3) | 1 | (2) |
| Fisheries & Aquaculture | 3 | | 1 | |
| Forest Products | 3 | | 1 | |
| Innovation | 5 | (1) | 11 | |
| Information Technology (IT) | 2 | (1) | 2 | (1) |
| Manufacturing | 13 | (3) | 10 | |
| Mineral Products | 1 | | - | |
| Petroleum | 2 | (3) | | (3) |
| Other | | | 2 | |
| Total | 45 | (12) | 32 | (6) |

Note: 'Primary' indicates companies reporting that their primary business focus is within the sector. 'Secondary' indicates companies reporting a significant business focus which is not their primary focus.

The majority of the SMEs included in this survey are small and the level of export activity, measured as revenue also varies widely from a few thousand dollars to as much as \$60 million. In addition to the 31 companies exporting outside of Canada, 3 companies were selling to other Canadian provinces. Almost all of the companies exporting outside the country were also selling in Canada. Of the 45 companies interviewed, 12 had been in business for five years or less and two had only been formed in 2000. Of the 34 companies exporting outside the country or selling to other provinces, eight had only been formed in the past five years.

3.2 Exporting Determinants

There are various factors that determine the feasibility of exporting from Newfoundland and establish parameters for such exports such as the nature of the business and its products and services, its location within the Province, its size and the degree of export readiness that it has achieved. Some of the more predominant factors are discussed in more detail below.

3.2.1 Industry and Exporting Activity

The majority of companies interviewed for this study are involved in some form of manufacturing and processing - from natural resources (fish, wood, agricultural commodities, minerals) to a broad range of industrial, technological and consumer products, while other participating firms export a wide range of knowledge-based services (professional, cultural, information technology and environmental). While many of the issues raised by these companies are not necessarily related to sector, industry or activity, clearly some are. Goods exporters, for example, face a different set of exporting issues compared with firms engaged in knowledge-based activities and other services. Goods exporters must transport products to export markets by land, water or air, while the service companies deal largely with the transfer of intellectual property. On occasion, exports of intellectual products, such as in the IT industry, may involve no cross-border movements at all, except by electronic means. Knowledge-based exporters have to contend with a host of relatively new issues associated with the transfer of intellectual property across borders - copyrighting, patenting, ownership product licensing and the like.

Even within the manufacturing export community, there are significant differences in experiences. The priorities for those shipping heavy, bulky goods with a low value to volume ratio - which mostly go by land and/or sea - are seen as radically different to exporters of high-value, low bulk products who may have the additional option to ship by air. Similarly, exporters of edible, perishable or fragile products report another set of issues simply because the nature of their cargo requires specialized transportation systems and handling, avoidance of the potential hazards at transshipment points or the use of reliable brokers and agents to handle and distribute goods in the export market.

In the non-goods producing sectors - including knowledge-based, cultural and other services - the differences in experience between industries and between exporting activities are just as pronounced. Knowledge-based exporting companies in the environmental, professional or IT fields, for instance, rely more on national and local research and development support in order that their "products" remain competitive in a highly changing global market place. While product exporters are concerned with issues such as transportation and customs regulations, these exporters often have to move people to other countries to perform projects, with associated

immigration regulation problems. They also have to be concerned with protecting intellectual property rights of their exported services.

3.2.2 Location

Location is an important factor, especially for companies exporting goods. Newfoundland's location has always been seen as a barrier to trade with other regions in North America (and Europe). Transportation costs, speed and reliability of delivery, and cost of travel are all issues that challenge companies wishing to export. It is costly to move goods out of Newfoundland and Labrador. For the most part, the costs, logistics and effort of transporting goods to and from Newfoundland and Labrador were raised by many SMEs as constraints to exporting. For companies outside of the immediate St. John's area, transportation difficulties within the Province can be as troublesome and costly as interprovincial or international transportation. In the past few years transportation has become less of a barrier as the cost of back hauling freight has been seen as an option, first from the island, and latterly from Labrador with the opening of the Trans-Labrador Highway. There are still few reliable transportation links to Europe, although there is more interest in exporting to Europe than ever. The issue of transportation is dealt with in more detail later in this section of the report.

The cost of travel from this Province is still a significant factor in doing export business that all companies have to face. While there appears to be little that can be done to alleviate this problem, it is seen as a major cost barrier to developing and maintaining export markets for local SMEs. Most companies interviewed for this study commented on this cost as a significant cost when developing export markets. It is recognized that it takes several visits, over a period of time, to establish an export market and this requires an outlay of capital to travel to these locations. For SMEs in this Province this can mean that travel costs are a prohibitive barrier to exporting.

3.2.3 Size of the Company

Size of the SME is also a factor as it determines the human resources that can be devoted to developing and supplying an export market. Size also relates to the management capacity of a company as small companies often do not have the resources to have individuals who are solely responsible for export endeavours. Thus, export initiatives can detract from the ongoing management of the company. Several companies interviewed and some of the industry associations commented that with limited resources small companies could not always spare crucial people to go on export development trips. This meant that the person traveling did not always have the knowledge of the product required to sell it to prospective foreign clients. Larger companies tend to have the resources to devote to exporting, both in terms of the specialized people needed to develop export markets and in terms of the human resources to meet the

production and servicing needs of the export clients. Several of the larger, successful exporting companies had at least one individual who was dedicated to their marketing efforts. One company indicated that it always sent two individuals to trade shows to maximize the benefits it derived from these events. Only larger companies, with resources can afford to commit to these actions. However, it is this type of commitment that is required to be a successful exporter.

This study indicates that there is an inverse relationship between the size of the company and its reliance on government assistance with exporting. Larger companies tend to have the resources, both human and financial, to solve their problems and succeed. When they do not succeed they tend to look inward for the reasons why. Smaller companies tend to be more reliant on government funding and knowledge to proceed with their export development and if they do not succeed then they tend to look at the level of support they received as a factor in their failure.

There were a few examples in this study of companies that had identified export markets that would have meant a considerable expansion of their present output and as a result felt that they could not pursue these opportunities further. For example, this occurred for some companies in the cultural industries sector where accepting an export contract would have meant that production would have had to be expanded well beyond its present capacity. The companies involved were concerned about their management capabilities and compromising quality, so the export effort was dropped. The challenge is to provide these small companies with access to the human resources needed, particularly management skills, to encourage them to pursue larger export opportunities where these exist.

3.2.4 Export Readiness

Export readiness is a key variable amongst the SMEs included in this study. Of the 34 interviewed companies that were classified as exporting, 28 were judged to have well established export networks and were already reliant upon exports for a significant proportion of their revenues. This is also the case for the companies that participated in the focus groups where 16 were judged to be established exporters with a significant proportion of their revenues being derived from exports. Of the remaining companies that were exporting, most were new and had not yet established reliable markets, or in a few cases had lost markets for a variety of reasons ranging from production difficulties to marketing problems or difficulties in supplying their markets.

Of the export ready companies, most were at the stage where their product or service is now developed and they have begun to actively explore markets. In one case a company that was beta testing its product when interviewed subsequently encountered difficulties in the venture capital market and has ceased operating. This indicates the fragile nature of the export ready stage.

While there are usually good reasons why a company has become a successful exporter, there are also numerous reasons why a company flounders in the export market. Underlying many of these reasons is often a lack of preparation, a lack of a suitable, high quality product or service and sufficient access to financing for export development. The export ready status of the SMEs interviewed was reflected in the responses given during the interviews. Successful exporters often indicated that they had experienced few problems, their product or service had been well received and they had avoided too much reliance on government funding. By contrast, those companies that tried to develop export markets for their goods or services and failed or only achieved limited success for one reason or another, were usually dissatisfied with their own performance and that of government agencies set up to support export endeavours.

Established exporting companies may require some support from time to time as they explore new opportunities or expand their export product range, but probably need relatively little attention. The question is how best to use available resources to bolster the efforts of those SMEs who have considered exporting but have encountered difficulties? One factor that has been mentioned by some SMEs in this survey is greater access to information on exporting and the requirements placed on a company to become a successful exporter. It could be argued that solid information on export readiness is already available through TCI. The challenge is getting this information to the SMEs, pro-actively, so that they can examine the issues before they venture forth to develop their export potential.

3.3 Common Export Needs and Challenges

3.3.1 Commitment to Exporting

Of the SMEs participating in this study, those that have succeeded in developing exports as a significant long term component of their markets have had in common the ability to understand in advance the time and effort required to achieve success. They have also been able to develop an effective strategy for export development and to muster and commit the required human and financial resources to this effort for a sufficiently long period to realize results. While this approach is generally consistent with that espoused by Team Canada Inc., few of these companies were aware of this.

The study also revealed companies that had struggled with the process of developing exports and were either still struggling along or had withdrawn. In many cases, these companies had not done sufficient planning and had not ensured that adequate resources would be available from the start. One company had examined its export potential quite closely and decided that, with the resources available to it, pursuing export markets might jeopardize its share of the local market, so it had withdrawn. Another company - enamored by its involvement in international trade missions and

shows - had over-extended its resources without achieving sales, seriously threatening its viability. This company withdrew to rebuild its local markets. It asserts that it will ensure that it has adequate resources to handle its existing business commitments before venturing forth again on an export mission.

The point in a company's development at which it decided to move to exporting and the reasons for doing so also affect their commitment. In many cases companies had established a local presence with their product or service and then decided that exporting was the path to expanding their business. Often this step was dictated by a shift in local demand. An example of this is two companies that provided products to the fishery and were negatively affected by the downturn in the fishery in the early 1990s. One company has adapted to develop other, related, product lines that are creating export demand, while the other is floundering, as it chases diminishing local and export markets with its original product. This also illustrates the need for companies to have flexibility in their strategies, so that they can adapt quickly to changing market conditions.

Companies that have successfully made the move from local to export markets have usually established a stable base from which to operate, including quality products, a good reputation for meeting demands, reliable follow up servicing and sufficient cash flow from local sales to provide the resources to develop export markets. An established food products producer has made the transition from servicing an established local market to becoming an exporter to several international markets. This has not happened quickly, but has required considerable time and investment. A key has been understanding the demands in foreign markets, their quality requirements and ensuring that delivery of product will be reliable. In addition, new equipment, funded in part by a loan from ACOA, has helped this company to attain the competitive edge that now sees its exports growing annually.

Other companies have an export orientation from the start. This often is predicated by the product or service that the company is developing. All sectors examined have examples of companies that have developed products or services primarily for export because there is a limited local market; examples include the biotechnology sector, much of the innovative industries and IT sector and several companies in manufacturing. Often these companies are focused on a relatively large export market and require considerable resources to reach the point where they are successfully exporting. One company interviewed for this study was viewed internationally as having excellent prospects with a unique product, but has recently experienced problems as it has not been able to attract the capital required to get it successfully through the commercialization phase.

3.3.2 Management Resources

In the evolution of SMEs, initially management skills tend to have a strong technical focus, as individuals with a particular expertise work to develop a viable company based on their knowledge and skills. Management usually involves basic functions such as developing the technology, acquiring additional skills as required and generating sufficient equity or revenue to meet the operating costs of the company. Issues such as marketing and exports are often low priorities for these companies. Thus, when these SMEs reach a stage where their product is ready for exporting they often have not developed, or acquired, the requisite skills to be successful exporters. In many cases the limitations of not developing sufficient management resources will have manifested itself in other areas as well and these companies will be struggling with other issues such as inadequate equity for growth, human resource management and strategic planning. There are exceptions to this generalization, as some companies see their product as having an export market from the start and begin to develop the management resources from the start to achieve this goal.

In terms of factors that cause SMEs difficulties as they approach the issue of exporting, inadequate management resources is a key. Without a clear idea and understanding of what is required to develop a suitable export plan, a company can flounder and waste its resources without achieving its export goals. Management was an issue raised by many of the companies that were interviewed, especially smaller companies that were struggling with the development of export markets. These companies often lacked clear strategic planning, even for their local operations and were generally weak in management skills. There were four or five cases where the company was struggling in the local market, in part because of poor management, and then looked to exports as a way of rescuing the company. This is not the circumstances under which a company should approach exporting and it is not surprising that these companies have not been successful.

Those companies that were successful exporters usually had sufficient in-house management expertise to deal with the issues arising from developing and maintaining an export program (often these tended to be the larger SMEs, with some depth to their management team). Others had put in place some form of access to this expertise, or had established a relationship with an outside distributor(s).

Several companies commented that they did not feel that they had sufficient knowledge of how to deal with the issue of export development and used a "hit or miss" approach. This covered all aspects from market research and selection to financing export development and handling the issues of production and quality assurance once an export contract had been secured. In many instances this lack of management skills was seen as the most significant barrier to exporting and needed to be addressed before the companies could progress. These SMEs feel that they would

benefit from the advice of someone who has had experience in managing a company and preferably, who has been involved in issues such as raising capital for expansion and export development. The term most commonly used was a "mentor". There was general agreement that this single action could greatly improve the progress of SMEs toward long term stability. The exact mechanism whereby mentors could be selected and matched to SMEs, or how such a scheme could be financed was not clear. It is worth noting that at present the mentor system is one that is being used by the Genesis Group, a development arm of Memorial University, in its Genesis Centre incubator program for small high technology start ups. The Genesis Group has expanded this program with support from the Y-Enterprise Centre and Operation ONLINE Inc., to include a virtual incubator called GenesisWeb (www.genesisweb.org) to extend the services of the Genesis Centre to SMEs in rural Newfoundland and Labrador through the Internet, including the provision of "virtual mentors" for those companies that justify this step. The virtual mentor works with the company via the Internet, assisting it to develop a business strategy and improve its management skills.

There are several difficulties that a mentor program might encounter. These may include difficulty in accessing appropriate mentors, the need to share mentors and issues of confidentiality if mentors were to be shared between companies. The issue of outreach is also vital for such a program, as it would be necessary to ensure that mentors were available to companies in all areas of the Province.

3.3.3 Financial Resources

The financial needs and resources with regard to export development of the SMEs examined in this report differ widely. While virtually all companies consulted were cognizant from the outset that export development would require additional funds, many did not understand the nature and magnitude of this requirement. Securing adequate funding for this purpose is a challenge that most face. Of the 45 companies interviewed, 23 - or fully half - indicated that lack of adequate financial resources was a significant impediment to their export efforts.

Financing of export development poses a particular challenge for small companies and new ventures which are frequently obliged to commit all their available sources to developing products and establishing operations before generating any sales. Moreover, initial sales are often low because they lack the funds needed to develop their markets. As these companies present too high a risk for consideration of financing by banks and other investors, government programs are often their only alternatives. While such funding may provide needed help, it is also sometimes restrictive in terms of limits on funds available, timing of the release of funds, approved uses of funds, and administrative requirements which may reduce an SME's flexibility to pursue opportunities.

Larger companies that are already successfully exporting are generating revenues and, therefore, tend to be less concerned about financing new export development ventures. This in part also relates to the management and distribution infrastructure these companies have already put in place. While this infrastructure may have to be expanded or modified, these companies do incur the full cost of putting it in place. Several companies interviewed were in this position and had the internal resources to finance their export efforts. In a few cases, these companies had access to capital from a parent company, or had bought into a product that had an established export market, reducing their export development investment requirements. Particularly large, new, export ventures may, however, still pose financing challenges for these companies.

Several of the more successful exporting companies reported that their evolution from serving domestic markets to serving global markets necessitated a quantum leap in their export activities and their associated financial commitment. After achieving some successes in penetrating export markets, they are faced with a decision whether to "go larger" and distribute products and services through major distributors or to continue to serve what are essentially niche export markets. The danger is that without a firm foothold in the marketplace, such exporting firms could be displaced at any time by competitors - especially if competing firms are bigger and have the resources to out-market the Newfoundland and Labrador firm, or if they can provide goods and services at a lower price in the market place. In order to land the first "big contract" the firm may have to undergo considerable expansion, restructuring and re-tooling which involves a significant outlay or acquisition of new capital.

Funds are required for a range of purposes which include plant and facilities, R&D, commercialization, export market development, and working capital to build inventories and receivables.

Export Market Development

The most prevalent financial need - cited by 13 SMEs - was for export market development activities. These encompass market investigation and promotional activities such as participation in shows, advertising, and product demonstrations aimed at developing customers and distributors. Costs are primarily incurred for travel, shipping / logistics, and professional services e.g. advertising, legal. Most companies in this position indicated that they had not fully realized the extent of the financial resources, personnel time and effort required to effectively develop export markets or the long time frame frequently involved before achieving success. Several companies indicated that, in their experience, export development may take up to five years before realizing a significant payback on the investment involved. The magnitude of funds required for this purpose as estimated by the SMEs ranged from tens of thousands of dollars to over five million dollars for two more experienced companies trying to break into new consumer markets.

A common difficulty for SMEs beginning to export is being able to adequately plan and budget such activities sufficiently in advance. In part, this is because of their lack of knowledge and experience in this area. Because such companies are often learning as they go, they sometimes make mistakes and may have to refocus their export development activities several times before achieving success. More established exporters generally have a better understanding of their export development needs because of their knowledge and experience.

High costs in some key markets - particularly the US and Europe - contribute significantly to export market development costs. While the low value of the Canadian dollar compared to the US dollar provides a competitive advantage for Canadian exporters to the US, it is also a major cost factor in developing these markets.

Raising money for export market development activities presents a particular problem for most SMEs. Banks will generally not loan money for such purposes because the expenditures do not provide assets which they can use as collateral. There is also no surety that the funds expended will result in revenues or that revenues will be realized within a time frame that will sustain the company.

Funding agencies do provide some financing of export development activities, e.g. Industry Canada Program for Export Market Development (PEMD), Industry, Trade and Rural Development Market and Product Development Program (MAPD), and ACOA, but these are generally on an activity by activity basis and are limited in scope and magnitude. Such funding programs are, therefore, not suitable for a comprehensive multi-year export market development effort which may be required by a SME to realize success. The only option available to some SMEs is to repeatedly avail of limited funding for individual export development activities. This creates an added administrative burden on the company and undermines their ability to mount an effective long term export market development plan.

Several companies starting business ventures in the innovative products, manufacturing, and resource sectors indicated that they had been obliged to use funds set aside for export market development to meet unforeseen costs in developing and/or commercializing products, or in establishing facilities. While these companies eventually found themselves able to produce a viable product, they had little or no money left to adequately develop export markets. Revenues were consequently below expectations and in some cases were jeopardizing their viability. While several had availed of financial assistance programs for export market development, the amounts provided were not sufficient to mount the effort they felt was needed to be successful. Some noted that capital funding assistance - mostly loans - had initially been provided for establishing their products and/or operations but the repayment of these loans is now hampering their limited export market development capability.

A few companies expressed frustration that they had not been able to secure contracts to sell their goods to the Provincial Government which would have provided a basic cash flow from which to help fund export development activities. While the underlying reasons for their failure to secure such contracts is outside the scope of this study, they appear to stem from a lack of awareness of their products and the way in which purchasing requirements are specified.

Commercialization

Three companies - two involved in innovative products and another in manufacturing - indicated that their primary financial need was for funds to commercialize products that they had developed. In each case, the company had spent very large sums of money in research and development to produce a product to meet a perceived market opportunity but effort is now required to figure out how best to produce and sell the product in a manner which will ensure its commercial viability and maximize profit. In one case, a company which had developed an innovative industrial measurement device determined through prototype trials with a key customer that while their product was highly effective it would not prove commercially viable because customers do not have the in-house expertise to integrate the device into their systems or to interpret and make use of the data generated. The company has therefore decided that instead of selling a custom product, it must move to a service model whereby it provides the product, integration, and interpretive services on a fee basis. To this end, it is standardizing the product to reduce integration costs and needs to develop software and support capability. Another company with a strong market opportunity in Southeast Asia, cannot feasibly supply the market from Newfoundland and needs assistance to contract and set up production capability for its product in or near its target market. The funds are required for plant retooling and associated design, professional fees, e.g. legal, engineering, a well as travel. Yet another company needs funds to produce and provide support for its innovative software and to set up and test Internet delivery and billing options for associated core services. In all cases, the estimated cost of commercialization is in the hundreds of thousands to millions of dollars.

Again, banks do not generally lend money for commercialization activities costs because of the risk associated with a venture at this stage and the lack of assets which it can hold as security. While government does provide limited funding for such activities, the level of funds available is not sufficient to meets these companies needs.

Plant and Facilities

Many companies indicated that they did not have the internal capital to initially establish their production facilities, or to expand or improve facilities to enable them to meet increased production, quality, or other demands needed to supply export markets. Only a few bigger and/or more established companies indicated that they had developed good reputations with their banks and

were able to obtain bank loans - sometimes in combination with government financial assistance, internal funds, and equity - to finance capital projects of this nature. In their experience, banks will provide financing for capital projects if they can hold the assets as security and the assets have a resale value equivalent to or better than their exposure. They also want confidence that the company is financially sound and that the venture for which the capital assets are required is viable. Smaller companies and start up companies, therefore, generally found it difficult to get bank loans. Many companies across almost all sectors indicated that they had acquired government financing for this purpose - usually through ACOA - and that the availability and terms of such funding was satisfactory.

Working Capital

Two of the companies interviewed and several other companies participating in focus groups indicated that a lack of working capital is a key constraint on their export growth. The issue was raised by companies in the manufacturing and agri-foods sectors in relation to building inventories to meet demand created by expanded export markets and in financing receivables. The issue of financing receivables was also raised by a company in the environmental sector with regard to long waiting times for payment of professional fees for work done outside the country. Banks no longer finance receivables. While the Export Development Corporation guarantees payments, it does not finance the carrying of these costs. SMEs must, therefore, have adequate in-house finances to meet its own financial obligations while waiting for payment.

Research and Development

Companies in several sectors indicated that product development, or the modification of existing products and services to meet the particular needs, preferences, or regulations of a market is important to their export development efforts. The activities involved include travel, research, product and process changes, professional fees (e.g. legal), and regulatory approvals. The associated costs for a particular venture can be in the tens of thousands of dollars and can present a significant risk and financial impediment. Some funding is available from government for this purpose e.g. Market and Product Development Program (MAPD) administered by DITT, however, the consensus was that the need is well in excess of the funds available.

Financing of true research and development activities was raised by a few companies in the biotechnology and innovative products sectors as a critical factor to the creation of viable products and services upon which the business is founded. Where markets for these products and services are largely outside the country, financing of R&D may be a legitimate export development issue. R&D is often a long and expensive process, however. It also inherently involves a high level of risk that the effort may not result in a viable, commercial product which must be balanced by the potential rewards of achieving success. The total cost, therefore, may be in the millions of dollars

and most SMEs cannot afford this level of investment. Banks generally do not finance R&D because of the high risk involved. While governments do fund R&D through specialized programs, much of this is channeled through institutions or is related to government purchasing requirements. SMEs requiring R&D financing must, therefore, attract venture capital for this purpose.

3.3.3.1 Capital

The issue of attracting capital was raised by companies in the biotech, innovative products, agri-foods, and cultural industries sectors and discussed thoroughly in one focus group. Most company owners indicated that they would rather not dilute ownership or cede control of their companies through the sale of shares but needed major injections of capital to finance a variety of activities, described above, directly or indirectly related to export development. In most cases, they had exhausted all other sources available including personal savings, government programs, and banks.

Equity was also an issue in interviews with two individuals within the School of Business at Memorial University. One strong view expressed was that any company that had reached a stage in its development where it had developed a product or service that was ready to be marketed either nationally or internationally should be in a position to access sufficient investment capital to develop its own export markets without the need for government funding. The implication of this is that support from government agencies should focus on developing the fundamental strengths of a company, including its management, its products and its viability so that it is attractive to potential investors. As it is now usual for government funding to be in the form of either an investment or a loan, it was suggested that this makes the company less attractive to potential investors, as it either means the company is carrying debt or that there are already other investors (government) who will lay claim to a share of any profits that the investors are seeking.

Sources of investment capital in this Province have always been difficult but not impossible to find. Indeed there is a paucity of investment capital in Atlantic Canada and the primary pools of investment capital, particularly venture capital, are managed from Central Canada and the United States. There is stiff competition for available funds from companies all over North America often promising quick payback periods and very high returns. Investment managers in Central Canada and the US are also less familiar with companies and opportunities in regions like Newfoundland which are geographically removed from their normal operating centres. It is very challenging, therefore, for all but the most outstanding projects from this Province to get the attention of these investors and win their confidence. This situation is exacerbated by the inexperience of many companies from Newfoundland and Labrador in marketing themselves to venture capitalists. The Genesis Centre has recognized these difficulties and focuses on preparing its "fledgling" companies to get the attention of potential investors and to present themselves favourably.

A number of SMEs complained that the Atlantic Canada Fund (ACF), which was set up by ACOA and the four Atlantic Provinces to provide a venture capital pool for progressive companies in this region, is too risk-averse and is acting more like a bank than a venture capital fund. Conversely, the opinion was also expressed that there are few good projects that have been presented to the ACF and that even with good projects, often the companies are reluctant to relinquish any ownership in exchange for an investment. There are also other venture capital funds in Atlantic Canada, such as Innovacorp, MTT and TARA. Together these funds have invested almost \$100 million in the region, although it is unclear how much has been invested in SMEs in this Province. Clearly there is a need for more venture capital to be available to worthy SMEs in this Province. (While this report was being prepared the Provincial government announced two new venture capital investment programs designed to stimulate growth of small businesses. These, the Direct Equity Tax Credit program and the Labour-Sponsored Venture Capital Tax program may address the problems outlined here.)

While investment capital could move under-capitalized companies a long way towards having the resources to develop their own export strategies, there is also a need to educate the management of these companies on what it means to have an investor in the company and the demands that an investor can make on a company in order to protect his investment. Again, the use of mentors and programs such as that offered by the Genesis Centre, are invaluable in educating these companies on how to seek investment and what investment means to a company in terms of its management structures.

An issue which has arisen repeatedly in relation to the export experiences of several different local companies and industry associations, is the attitude of business communities in certain parts of Canada, particularly Ontario, towards Newfoundland companies. There is an impression within these business communities, perhaps created by the media, that companies in this Province have no credibility. In some instances, Newfoundland companies have not even been able to arrange meetings with prospective investors once they know that the company is based here. Similar situations have been reported by Newfoundland companies in soliciting customers, distributors, and agents in these areas. Outside the country, these same companies are treated no differently than companies from any other part of Canada. The suggestion was made by more than one company that government should consider ways of changing Newfoundland's poor image which is for some an impediment to their export growth.

3.3.4 Market Relationships

Marketing can be carried out in a variety of ways. The one an exporter chooses depends on the nature of the products or services offered, the characteristics of potential markets and, to a significant degree, the exporters' knowledge of opportunities and contacts in the market area which

may be of assistance in the export development process. For example, having a known contact in a particular market area can be instrumental in determining which market should be targeted and the strategy employed to find customers.

The companies consulted through interviews and in focus groups described a range of approaches to developing export market relationships, as well as various issues they encountered. Some of these are referenced here since they can help explain relative successes and failures in export marketing. Further, the approaches to marketing and developing export relationships in target market areas are issues that illustrate some of the challenges facing Newfoundland exporting companies.

Most companies do not rely on any one marketing tool or approach to exporting. Using several approaches simultaneously can broaden the likelihood of success, even though it takes considerably more funds to employ several approaches. Therefore, references below to companies using any particular approach take into consideration that the strategy described may be the principal or preferred one, not necessarily the only one.

3.3.4.1 Marketing Through Personal Contacts

Seven of the companies interviewed use personal contacts as the main way to find markets for their exports. All of these companies provide knowledge-based services rather than products. Moreover, most of the companies consulted which sell knowledge-based services appear to place a greater emphasis on establishing personal relationships with companies, groups and individuals in the markets to which they export compared to firms engaged in exporting tangible products. This appears necessary since it is the particular expertise or intellectual product of the exporting firm's personnel that is being sold.

This is consistent with previous research on knowledge-based service exporters, such as the Memorial University Centre for International Business Studies' comparative study, *Exporting of Knowledge-Based Services in Newfoundland and Labrador, Prince Edward Island, Iceland and the Isle of Man* (Centre for International Business Studies, Memorial University of Newfoundland, 1998). It concluded that the essence of exporting in the knowledge-based industries is for the exporter and client to establish a relationship of trust so that the client is confident of the service provider's capabilities.

Repeated interaction with potential clients at conferences, through business networks, and within professional activities is very effective in building such relationships leading to initial contracts. These activities allow clients to see the exporter in action so they may assess first-hand what the exporter has to offer. Most of the seven knowledge-based service companies using personal

relationships as an export development tool outlined the importance of participating in a variety of professional activities and events in export markets. For example, three firms highlighted the importance of periodically presenting papers at scientific or technical conferences. In addition to attending other trade promotion activities, such as trade shows, trade missions or direct canvassing of clients, presenting papers serves to maintain those companies' expertise and reputation. Conferences may also be a venue for meeting new customers and potential clients, and one of these companies in particular reported that it derives more export work from professional and technical conferences than from any other form of marketing or service promotion.

This "relationship-based marketing" approach referenced above is perhaps most commonly and effectively used in marketing knowledge-based services and can take on many forms. In the case of one company interviewed which has acquired specialized expertise in assisting large natural resource projects to meet national and international compliance standards, using personal contacts to find new clients is not only the preferred strategy, it is seen as the only strategy which works. Considering the global nature of these industries and the fact they are dominated by large multinational exploration and development companies, small Newfoundland firms would in all likelihood not be able to compete for such mega-project activities. This firm established its reputation early in the Hibernia socio-economic environmental assessment process and based on this, it was subsequently hired by members of the Hibernia consortium for work on some of their other international developments. This firm has obtained subsequent contracts and expanded its range of activities through its reputation, recommendations from clients, and personal contacts within a narrow circle of the leading consortia on several continents. In most cases, clients come to the company rather than it having to seek out clients. The company claims that it could never have achieved this level of success in exporting its knowledge-based services through the normal project tendering processes or other marketing approaches.

Two of the companies in this category are in the cultural industries rather than high-tech. Although they too rely on relationship-based marketing, and the process is similar, their contacts are made through performances, demonstrations and shows rather than professional conferences.

Although goods exporters do not normally use relationship-based marketing as their primary approach to exporting, several firms did report using personal or professional contacts to assist in their marketing efforts. A West Coast exporter of an edible food product who is relatively new to the business managed to develop a sales outlet in Korea because of a mainland contact of Korean descent. This mainland contact knew potential buyers in Korea and used his influence to match the buyer with the West coast exporter. There can be a trade off when using personal contacts, as the market attained may not be the best for the product or service. Selling into the Korean market for the exporter referenced above appears to have met with a degree of success, but that country may not be the most lucrative Asian market for the type of product exported. To find suitable buyers or

agents in other, more lucrative Asian destinations, however, may take more resources and effort than the company is able to devote. The trade-off, therefore, is to accept a lower level of potential opportunity which is "ready-made" rather than to explore the more difficult target market with greater potential.

Integral to the relationship-based marketing concept for the knowledge-based industries in particular, is the use of networks and alliances comprising individuals, groups and companies associated with the exporting firm's industry or services. Networks are especially useful for market research and promotional activities since information on the quality and reputation of both the exporting company and the services provided can be rapidly and effectively spread throughout network members. For example, one rapidly-growing software development company is involved directly in two formal business networks and has established working relations with several others. In a similar vein, the more aggressive IT companies consulted noted the importance of attending major North American and European conventions and trade shows - not so much for what the shows themselves have to offer, but for the networking that goes on amongst the leading companies in the industry and for the contracts that can be solicited as a result.

3.3.4.2 Marketing Through Corporate Alliances

Establishing corporate alliances in export markets can benefit both large and small companies, allowing them to capitalize on the expertise, market knowledge and competitive advantage of companies *in situ* to help market the goods and services of the Newfoundland company. Normally partnerships, joint ventures, product licensing and co-operative marketing agreements will be negotiated between companies with complementary goals, products or services. There has to be mutual commercial or financial advantages to both companies for such arrangements to work. Co-operative alliances will involve sharing of technology, research, market share, investments, production effort or other mechanisms. Thus, Newfoundland firms entering into such corporate alliances must balance the advantages offered by the partnering firm in market knowledge and presence against the associated loss of control and revenues resulting from increased export sales.

Two firms indicated they had penetrated new markets through partnerships with companies in those markets and had subsequently terminated the alliances when it became clear the alliances were no longer profitable. In one case where a local manufacturer sells product into mainland Canada, it initiated market development by forming a partnership with an Ontario company. As the market evolved, the Newfoundland firm bought out the Ontario partner thereby making the Ontario company a subsidiary operation to the Newfoundland plant. A couple of years ago, rising transportation costs forced the Newfoundland company to sell off the subsidiary entirely. Nowadays, the Newfoundland firm sells input materials to the Ontario firm which assembles these inputs into the same manufactured items as the Newfoundland firm produces. An agreement

between the two companies specifies that the mainland firm will not sell into the market area covered by the Newfoundland manufacturer (Atlantic provinces and the North-East US) and the Newfoundland firm will not sell in the Ontario company's market (Central and Western Canada, and the US Mid-West).

Eight companies listed the formation of corporate alliances as the principal means of marketing products and services. Four of these are large companies which are either subsidiaries or affiliates of multinational companies, or which have entered into consortia with major international firms. Of these, two work extensively in the oil and gas sector. All four of these companies, through their alliances, have established world-wide markets.

The other four companies are relatively new to the exporting business, although three of them have grown rapidly, largely as a result of their overseas alliances, to become leaders in their respective fields in Newfoundland and Labrador. The fourth company has not evolved to the same extent since it has been unable to capitalize on the alliances it has made. This firm claims that the potential is there in both its target markets, but it has not been successful in soliciting international funding necessary to launch its co-operative projects. Two of the four smaller firms in this category offer environmental products and services, the third is a knowledge-based service company and the fourth is both a knowledge-based service provider and a project developer.

There are other companies which use corporate alliances to support more direct export marketing activities. Several manufacturing companies have joined national or international trade associations in target market areas in order to use membership benefits to promote their products. One garment manufacturer, for example, joined a US trade association comprised of the continent's leading fabric manufacturers and this has created opportunities for marketing, as well as identifying the major suppliers of fabric.

3.3.4.3 Marketing Through Brokers and Agents

The most common approach for ensuring distribution and delivery of products to target markets by the companies consulted is to use brokers or agents in those markets. Fifteen companies, fourteen of them manufacturers and one in the cultural sector, engage brokers or agents to represent them. In most cases, brokers or agents are independent companies or individuals who have responsibility for determining, finding and negotiating with buyers on behalf of the Newfoundland exporter. In most cases, brokers or agents assume responsibility for ensuring the products are delivered to the customer. In other cases, brokers or agents may be used to identify customers and to negotiate contracts, but the Newfoundland exporter may be responsible for delivery. One West Coast manufacturer selling into Canada and the US found that total reliance on a broker or agent can be problematic. This firm found that unless its own staff directed

deliveries to the sales outlets, it could not be assured that its products were delivered, displayed and promoted properly.

The success of the brokering/agency system in part depends on the type of product being exported. The forest products industry has a good relationship with brokers, especially in the US, partly because of the standardized grading, pricing and quality control systems in place in Canada and the US. Nevertheless, two of the forest products companies indicated how important it is to find the most reputable brokers and agents, and how much of a "hit and miss" affair this can be. Another forest products exporter selling into the US, has recognized that brokers or agents are essential to securing customers in US lumber markets - unlike Canada where sales can be negotiated directly with wholesalers, retailers or the home construction/renovation industry. Even so, this company encountered significant problems with its broker which were only resolved when the exporter met face-to-face with the broker. The message from these experiences was to ensure the most reliable and trustworthy broker is used for US export market development.

3.3.4.4 Marketing Direct to Buyers

Thirteen companies export primarily by dealing directly with customers. Ten of these are product exporters, while three are service providers. All of these companies also employ other complementary methods to promote their goods and services in export markets.

The two most common forms of direct sales/marketing are (i) negotiating with wholesalers or retailers and (ii) using trade shows, trade missions and offices in target markets to speak directly to potential customers. Both achieve the same result and for the most part do not involve "middlemen" such as agents and brokers. This does not mean the cost of doing business in export markets is diminished, however, since such direct arrangements can place the burden of delivery and distribution on the Newfoundland exporting company. At least two companies in this category noted that once they have found a potential buyer and negotiated a contract with them directly, it is then necessary to employ the services of an agent or broker to look after the logistics of getting the products to the customer.

Companies dealing directly with wholesalers and retailers tend to be manufacturers of consumer-ready products such as food, beverages, garments, wood products and crafts, as opposed to manufacturers that serve as inputs to further processing. Several companies in this category have landed sales contracts with large wholesale and retail chains, primarily in Canada and the US. The companies report significant difficulties in acquiring such contractual arrangements, as it is difficult to be recognized by these large chains. Some of the more aggressive firms with resources dedicated to marketing were persistent until their approach was acknowledged, while others initially used whatever contacts they had in the business (relationship-based marketing) coupled with high

exposure at major trade shows. Even then the failure rate in attracting major international buyers is high.

All 13 companies in this group attend trade shows to attract attention to their products and services. Three of the four firms claiming that trade shows are the principal direct marketing approach used are knowledge-based service providers, while the fourth is a garment manufacturer. This latter company, based in St. John's, attends all of the major trade shows across North America related to this industry in the belief that well-organized and prominent trade shows in this specific area of manufacturing bring together most of the major buyers to one place at the same time. Further, this firm supplements trade show participation with trade missions focused on its target markets using a similar rationale that high-level trade missions attract senior representatives of companies, offering the best chance of becoming principal clients.

Two firms report that they have established branch offices in target markets through which all sales and marketing in that area are directed. This option is usually only available to larger firms because of the costs involved, but it can be an effective form of developing relations directly with clients in key markets.

All companies undertake some form of advertising of their products and services which in itself is a way of establishing direct marketplace relationships. One company which manufactures high-quality gift products, uses advertisements and promotions as its main contact with customers while sales are handled through mail order, and in the future, the Internet. This firm still uses agents to assist in its marketing, especially in Europe where sales at present are minimal, but even there the agents are responsible for ensuring that the products are promoted in niche markets, including listings in specialty catalogues.

3.3.4.5 Marketing and Government Contracts

Bidding on government, and certain other, contracts may not appear to involve any significant relationships with anyone but the agencies contracting the work. However, to successfully bid and win contracts to supply goods or services in export markets generally requires extensive background research on the target market, especially developing contacts, alliances and other kinds of *in situ* corporate and professional relationships.

One of the companies interviewed conducts most of its overseas business through contractual arrangements with domestic and foreign governments and international financial institutions (IFIs). This contracting firm made a conscious decision to market its services internationally through CIDA and the IFIs based on staff's previous experience in those target markets and a knowledge of the opportunities that contracted projects in the developing world can offer. This company has

established a world-wide reputation for the work it does overseas and it is promoted by CIDA as a model for how Canadian companies can use international development projects as a vehicle for exporting goods and services. This approach to exporting requires special skills in developing a solid understanding of how government and IFI funding programs work and especially in forging personal relations with key decision-makers in these contracting agencies.

A significant issue for some companies bidding on government related export contracts is whether its own government (Federal and Provincial) purchases its product or service. Such purchases are often perceived by potential foreign customers as essential endorsements without which they would be reluctant to make such purchases themselves.

These approaches to export marketing and development, outlined above, are not mutually exclusive. Exporters must use whatever resources and avenues are available for promotion of their products and services. At least one company, a St. John's-based manufacturer, uses all of the approaches outlined even though its primary strategy is the brokerage/agency system; the least used approach by this firm is the contracting process. The company is large enough to have gone beyond the niche marketing stage for most of its products. It has a widespread distribution system in Canada and in key markets which makes good use of agents, brokers and alliances with larger international companies.

Most of the companies interviewed target niche markets for their products and services. The exceptions, almost by definition, are the handful of larger SMEs with global distribution systems in place. The types of market-based relationships necessary to penetrate niche markets may differ from those required for more widespread export development. The goal of many Newfoundland companies is to grow through market development activities, recognizing that to rely on niche marketing can be precarious and may limit overall growth potential in the long term.

Several smaller export firms interviewed that have experienced significant successes in Canadian and foreign markets are managing to move out of the niche marketing category through winning significant contracts with large multinational or international firms. Some of these successes are attributable to the kinds of relationships, and the range of relationships, these companies have established in target markets.

3.3.5 Transportation

Traditionally transportation issues have determined where product processing may take place, considering factors such as the location of raw materials, distance to markets and conversion costs. In the past, Newfoundland and Labrador's position close to raw materials, but distant from

major global and North American markets, has resulted in raw materials being exported from the province and processed elsewhere.

Several goods-producing companies interviewed during this study, as well as three focus groups, commented on a variety of issues related to transportation. These focused on shipping raw materials into the province or moving products to market. For the most part the costs, logistics and effort of transporting goods to and from Newfoundland and Labrador are seen as export constraints. For companies outside of the immediate St. John's area, transportation difficulties within the province can be as troublesome and costly as moving goods out of the Province.

External Transportation Costs

Newfoundland and Labrador companies competing in the North American market with goods which are not unique to the marketplace often have to contend not only with higher costs of production, but additional costs of transportation to those markets compared to competitors based on the mainland. SMEs producing windows, doors, wood products, foods and beverages, and a range of other manufactured goods, have to compensate for the additional expense of shipping in materials and exporting finished products in order to be competitively priced in the marketplace.

A few companies not tied to resources in the Province indicated that there would be financial advantages to relocating to the mainland, especially Central Canada and, indeed, some have already set up subsidiary plants on the mainland or entered partnership arrangements with mainland firms to undertake a part of the production process. Several Newfoundland-owned firms stay in the province and export from here because they are Newfoundland companies and do not want to move, even though financially they may do better in a location with lower production / transportation costs.

Several companies shipping bulk or heavy products, where transportation costs by road or sea are higher per unit value, can identify a point across the North American continent where it is no longer viable to ship product. In the case of one St. John's-based company, it can serve markets as far as Ontario and New England. Beyond southern Ontario or south of Boston, transportation costs are so high that the product simply cannot be sold at a profit. This company has established a partnering arrangement with a firm in Ontario where the Newfoundland exporter sells the Ontario firm some of the basic component materials and the Ontario firm assembles the product to the Newfoundland firm's specifications and standards. The Ontario firm has the authority under license to distribute the finished product in parts of western Canada, and the northern and mid-west states. The arrangement between the two firms stipulates that the Ontario company will not sell into the provinces and states served by the Newfoundland company. This illustrates one strategy for a Newfoundland company to overcome distance and cost limitations in finding export markets

Interestingly, in the example cited above, Labrador is a region in which the Newfoundland firm cannot sell product profitably, partly because of low-cost competition from Quebec firms, but also because of high transportation costs and logistical problems associated with shipping from the island. Ironically, the partnering firm in Ontario does have the ability to service the Labrador market effectively, although it chooses not to do so because of the limited size of that market.

A West Coast company cannot transport and sell its products west of Manitoba, even though it has no direct Canadian competition, again because the high transportation costs involved makes its selling price unacceptably high. The company has, consequently established a processing plant in Western Canada which manufactures exactly the same product as is made in Newfoundland so as to serve Western Canada and western states in the US.

In exporting overseas, air and sea transportation links have improved immeasurably over the last two decades. There are, however, few direct links with these foreign markets because of the low demand at present. Goods destined for overseas ports in Europe, Asia, Africa and Australia must therefore, be transshipped through mainland ports such as Halifax, Montreal, or Boston. The added cost of this transshipment and handling can still put Newfoundland and Labrador companies at a disadvantage compared to mainland competitors in close proximity to these major international ports.

Internal Newfoundland Transportation Costs

Internal transportation infrastructure poses similar impediments particularly for companies outside the Avalon where the cost of shipping goods to airports and sea ports can be as costly as overseas transportation, especially where perishable or breakable goods are concerned, or where special shipping arrangements have to be made. This is the case for one company whose products are made of glass and require special facilities for shipping.

Referenced also was the difficulty of shipping goods out of small regional airports across Newfoundland and Labrador. One company which ships out food products from a small airport reports enormous difficulties with lack of cargo space on the types of aircraft used. Its low priority status in acquiring cargo space, and the time it takes to ship product to the mainland through several break-bulk points, increases the risks of product damage unless the product can be kept in chilled conditions while at a trans-shipment point - and there is no guarantee of this.

Back-haul

The ability to use back-haul trucks with special rates associated with trucks going back to the mainland empty was referenced as both a positive and a negative feature of shipping from the Province. Low-cost back-haul reduces the disadvantage Newfoundland and Labrador exporters

face operating in this province, but even they recognize that the availability of low-cost back-haul shipments is not necessarily a permanent situation, especially as the increasing use of alternative means of shipping goods to the Province (marine and air) may over time decrease the amount of back-haul truck space available. Companies' exporting plans, therefore, cannot be based over the long-term on the future availability of low-cost back-haul.

For some products which require special handling, back-haul may not be an option. Again, reference is made to perishable and breakable products for which transportation rates are high because refrigerated units or trucks/containers with specially-constructed features built in to protect the product in transit must be used.

Transportation Assistance

A couple of companies producing materials for the residential and commercial construction and renovation markets had a difficult time adjusting to the elimination of the federal Atlantic Freight Rate Assistance program (AFRA). This move almost doubled the costs for some companies of shipping goods to mainland Canada and the US. While most of these firms accept that overt transportation subsidies like the AFRA program will never return because of governments' concern they are "trade distorting" and cannot be justified either globally or under Canada's internal trade arrangements, companies are calling for some covert measures which in their eyes "level the playing field" for exporters based in peripheral regions such as Newfoundland.

3.3.5.1 Logistics

Increasing marine and air routes to mainland Canada provide alternatives for many exporting companies. The logistics (and costs) associated with use of the Gulf ferry feature prominently for several companies relying on truck/road container transportation across the island. These companies indicate an improvement in cargo space availability and schedules with the high-speed passenger ferry hired by Marine Atlantic this past summer. However, this option may not be available next year according to Marine Atlantic.

Improvements in Oceanex and Eimskipp's operations have eased the logistical problems of shipping goods to Europe and the mainland / US, but both systems still involve significant break-bulk / trans-shipments compared to the ease of transportation from other Canadian ports.

One company shipping a low-bulk, high-value manufactured product all over the world referenced that it used UPS air transportation for all of its shipping and implied that overall costs were significantly less than traditional airlines' cargo shipments. Further, UPS did all of the freight-forwarding and logistical arrangements. This firm would not consider going back to the regular airlines, even though they have had occasional problems with the UPS service.

Several companies exporting product commented that they found it difficult to meet the demands placed on them by importers who expect goods to be delivered on a "just in time" basis, as they do not have control over their delivery system. Weather conditions and other factors often affect companies' ability to meet "just in time" delivery requirements of customers. In one instance the company has purchased its own truck and is now responsible for its own delivery. Another company shipping perishable goods indicated that it was necessary to track shipments constantly, right to the customer's unloading bay if necessary to ensure that delivery schedules were met. Reliability of delivery is a key to customer satisfaction and anything that can help to ensure this assists these companies.

Another significant contributor to missed deadlines is Canadian and American Customs - shipments of goods and deployment of personnel are often held up pending clarification. Clearing goods through Customs has also proven to be a problem for companies bringing products back to Newfoundland for servicing, particularly for companies in innovative technology where the nature of the product is not obvious or previously known to Customs agents. This can sometimes be addressed by working with Customs agents over a period of time to instill in them an understanding of the products. The alternative is to establish service capacity in export countries.

Regulations

One specific transportation issue raised by a couple of companies is satisfying federal regulations prior to shipping. For example, products involving agricultural products (including soil, vegetation and other earth-based materials) fall under the auspices of Agriculture and Agri-Food Canada's plant protection regulations. Materials have to be inspected before trucks leave the plant and there is often a charge levied for inspection services. One company even referenced a \$30 per truckload inspection fee which is routinely charged, but rarely does a federal inspector actually come to the plant to inspect the truck or its contents. The company felt that this illustrates that such inspections are not really required, but add unnecessarily to an already burdensome transportation cost.

For the most part, experienced exporting firms know their regulatory and inspection obligations, both for exporting out of Canada (or across provincial boundaries) and when entering a foreign country - principally the US. At least two companies had experienced problems shipping goods into the US by truck and noted that in these kinds of situations the quickest and easiest remedy, albeit an expensive one, is to send a senior company representative to the hold-up point by air in order to resolve the dilemma. In these kinds of situations, the problem is often a lack of awareness or knowledge of the process and/or the products/shippers on the part of customs and other officials..

Most companies appeared to have little difficulties with local freight forwarders or shipping agents - at least for getting products out of Newfoundland and Labrador. Depending on the nature of the

products being shipped, however, some exporting companies use specialized agents on the mainland and in the US claiming that local agents are not experienced in handling these types of shipments.

3.3.5.2 Agents and Brokers

There was a variety of strategies used by goods exporting companies in the distribution of exports to final markets. They include:

- use of agents and brokers in place/country of export;
- distribution channels and arrangements are handled internally by the exporting firm;
- export distribution is handled by wholesalers who are the end-purchasers of the products, and;
- formal joint ventures or partnering arrangements are negotiated so that distribution in an export market is handled by the mainland partner.

Generally, exporting companies using any of the strategies outlined above raised very few issues regarding export distribution. Each of these strategies have advantages and disadvantages. For example, firms using a foreign wholesaler recognized that while overall responsibility for ensuring the Newfoundland product is distributed to consumers or retailers rests with the wholesaler, they do lose control of how their product may be promoted by the wholesaler. On the other hand, if the wholesaler is based in the US and dealing with hundreds of retail outlets in several states, the Newfoundland company cannot be on the ground at each outlet ensuring that products are displayed properly or that in-store promotions are set up as and when they should be.

The point is that choice of distribution strategy is an important component of exporting and often success comes with experience over time. Several companies that have been through this experience recommend that for new exporting companies more detailed information, illustrating the merits of each strategy, needs to be made available to them. This message becomes even more important in considering foreign markets, especially outside of North America and Europe. This could be an issue for industry associations like the Alliance of Manufacturers and Exporters of Newfoundland to consider in supporting the export efforts of their membership.

3.3.6 Research and Development and Other Support Facilities

Traditionally, the exporting of fish, forest products and minerals from Newfoundland entailed minimal processing and so support facilities for the manufacturing or processing of these commodities have not been established in this province. In recent years, however, considerable emphasis has been placed on value-added exports which in turn has led to new manufactured or processed products being produced.

Several companies referenced their desire to develop new products for specialty markets and the corresponding difficulties in accessing research and development, laboratory, analysis and testing facilities to assist in this area. Some successes have been achieved in diverse sectors such as fish, food processing, innovation and manufacturing where facilities such as the Centre for Aquaculture and Seafood Development, the Centre for Cold Oceans Resources Engineering (C-Core) and the Institute for Marine Dynamics have assisted companies with their research and development needs. However, in sectors such as forestry, where Newfoundland companies are looking at niche markets in North America in which to supply specialized softwood and hardwood products for construction and renovations, research and development and other support facilities are not available locally.

Companies undertaking their own research and development often require support. Although support for these efforts is not directly related to exports, at least ten companies in this study commented favourably on support that they had received at this crucial stage (usually from ACOA, but on occasion from other sources) that had helped them to commercialize a product or service that they were now successfully exporting. As the emphasis continues to shift towards developing value-added products and services for the export market, pressure will grow for better facilities for research and testing and also for support for these endeavours at the development and commercialization stages.

3.3.7 Quality Assurance

Quality assurance is an often overlooked aspect of exporting. In developing export markets for their goods and services, SMEs often do not consider the requirements for quality that are demanded in foreign markets. It is not unusual for the quality requirements of a foreign market to exceed that demanded by the local market. Further, there may be a requirement to provide evidence of quality assurance before a deal is closed. Companies need to be prepared for this, especially as in some countries standards such as ISO 9000 are now seen as a minimum requirement for quality assurance by a supplier.

There has been little emphasis to date on implementing formal quality assurance programs and acquiring certification from a recognized authority amongst the SMEs participating in this study. For most, quality assurance certification has not been required by non-export customers and there has consequently been no compelling reason for them to undertake the often lengthy and costly process involved. The main exceptions have been companies supplying the oil and gas industry or providing primarily technology based products and services to local offices of large national or international clients. These markets sectors generally demand ISO or some other formal quality assurance certification for products and services they purchase to comply with their own quality assurance programs. This study provided examples of companies that had experienced difficulties

deal with a variety of suppliers of stone, and can provide retailers with a wide range of products and choices. Quebec companies are most prominent in eastern Canada in this regard having had long established dimension stone industries and markets. The former option requires a significant ongoing investment in skilled personnel, travel, and promotion which most start-up companies in this industry cannot afford. Moreover, management initially tends to focus on operational issues and not on markets. The quick solution, therefore, is to contract with one or more distributors. Sometimes the distributor also provides final finishing of products to meet customer requirements. The downside is that the distributor takes a significant cut of sales revenues and will generally insist on an exclusive arrangement with the producer. Consequently, the producer is dependent on the distributor to promote his products, develop markets and name recognition, which if unsuccessful, can undermine the producer's viability. Such distributor arrangements have been problematic in terms of realizing revenues and presenting obstacles to companies subsequently developing markets on their own.

In the long term, it appears that dimension stone producers may be better off mounting their own marketing and export development efforts. Two dimension stone producers in the Province have entered into a co-marketing relationship to sell each others architectural tile with their own in Europe. This adds to the diversity of their product lines and helps reduce the individual burden of marketing effort and costs. To be successful, companies in this business also need to hire dedicated, capable marketing personnel and invest in promotion of their products. The conundrum is that this business tends to be capital intensive and there is little or no cash left over after start up for marketing and export development. Without sales there is no cash flow to fund marketing and sufficient cash flow cannot be generated without sales. ***There is a need, therefore, for direct financial assistance to help jump start this effort but there appears to be some lack of awareness of available government programs in this regard.***

The suggestion was also made that governments could help indirectly in this regard by developing infrastructure such as roads (similar to forest access roads) and by purchasing quarry waste material for use in civil works. These measures could make more money available for marketing and export development by reducing other needs for capital in the first instance, and in the second instance by adding to revenues.

It also appears that companies in the dimension stone business could benefit from assistance in gathering export market intelligence specific to their product lines as well as in developing market contacts, if they had dedicated marketing staff in place. There also seems to be a willingness to participate in government sponsored trade initiatives such as trade shows and missions provided that the initiative matches their market focus and needs.

in exporting due to quality assurance requirements of export customers. At least one company indicated that the expense of becoming ISO certified was seen as a barrier to entering the export market.

On the other hand, the importance of quality was emphasized by at least two comments that stated when one or two companies provided a sub-standard product to a market, it affected the reputation of other companies from this Province trading in the same market. In Section 3.5.1 the issue of Newfoundland's negative image in some parts of Canada was discussed. Placing an emphasis on quality and ensuring that product from this Province is of the highest standard will help to overcome these images. One company involved in exporting innovative services into the US commented that their best marketing tool to new US clients was the endorsements regarding the quality of their work that they received from satisfied clients.

3.3.8 The Role of Governments in Promoting Exporting

The role of governments in promoting exports received a range of comments from the companies interviewed, from focus groups and from others that were consulted as a part of this study. In assessing these comments there are main issues that stand out, namely:

- Disseminating information related to exporting;
- Providing financial assistance to companies to develop their export potential, and;
- Organizing export development events for companies such as trade shows and trade missions.

3.3.8.1 Export Development Information and Services

There is currently considerable information available to SMEs to encourage them to make informed decisions regarding exporting. Websites such as *www.exportsource.org*, *exportsource.org* and *strategis.ic.gc.ca* contain information on all aspects of exporting and can assist companies with their research of export markets around the world. The federal government, in co-operation with the provincial governments, has also established International Trade Centres in each province to enable potential exporters obtain information and counseling on pursuing export opportunities before venturing forth to foreign markets. These services enable companies to understand fully the challenges that face them in terms of establishing contacts, financing their market development travel, understanding the particular customs and traditions of a foreign country and the infrastructure and financial assistance available to them once they gain access to an export market. They also help ensure that companies are better prepared before they leave Canada and better able to avoid costly mistakes.

Many companies interviewed were not aware of the information and services available to potential exporters and felt that this apparent gap constituted a significant need. The perception that there

was not enough information on exporting was prevalent off the Avalon where companies felt more isolated and often did not get the opportunities to attend seminars and workshops on these topics that are sponsored by industry associations. The challenge that both levels of government face is raising the awareness of SMEs in the Province about these information services ensuring that they are readily accessible to the companies that need it. As much of this information is available on the Internet, an effort to encourage more companies, particularly in rural areas, to make greater use of this resource might help address this issue.

3.3.8.2 Financial Assistance for Export Development

The financial needs of SMEs were discussed previously. SMEs identified several aspects of export development for which they felt more government financial assistance was needed to help realize their export potential. The most predominant of these, was the need for funds to investigate markets, promotion their products and services, and to develop effective marketing relationships. The need is for a stable, long term commitment of financial assistance sufficient to achieve export success. The funding requirements identified by SMEs ranged from tens of thousands of dollars to millions over a period of up to five years. first is funding to support their efforts to develop products and services that will be marketable. Another need is for assistance with developing or modifying products to meet the requirements or opportunities presented by export markets. A third need is for assistance with commercializing products, particularly in expanding production to meet export demand, meeting specific requirements of export markets, or establishing arrangements with experienced producers in market countries.

When SMEs were asked about funding support 19 commented on support that they had received from ACOA for the development or commercialization of a product or service. This support was usually in the form of an investment or loan. Similar issues were raised in four of the focus groups that were held, one on the West Coast and three in St. John's. The majority of comments on ACOA support were favourable (14 companies and three focus groups). While this support is usually not directed specifically at exporting, companies indicated that it was this injection of funding that allowed them to reach a stage where they had a product that they could consider exporting.

In one case, an environmental company involved in waste management had an opportunity to work in a new and potentially lucrative market servicing the oil and gas exploration sector. In order to do this, they were required to redesign their equipment and provide proof to the client that the equipment could perform to industry specifications. This required a significant input of capital that the company could not access directly. A loan from ACOA was instrumental in ensuring that the company obtained the needed investment and it obtained the contract. This company has gone

on to develop a global market for this service that has enabled it to grow its annual revenue to over \$10 million per year.

In another instance, a food and beverage company required new equipment in order to produce the range of products that would enable it to be competitive in international markets. As this equipment was expensive it was not easy to raise the capital. ACOA invested in the company so that it could raise the necessary capital to purchase the equipment. The company has now made breakthroughs in several international markets that it could not previously access as a result. There were several other examples of a similar nature.

Where companies were critical of this type of funding it was usually because the funding was felt to be insufficient or it took too long for the company's request to be processed. An illustration of the former is the biotechnology industry which has received funding from ACOA and other agencies, but comments were that the needs of this sector are large, because of the long development periods when there is no cash flow. While the support is welcome, it does not always meet the needs of biotechnology companies. The latter point was made by two companies that had experienced delays in obtaining a response to their funding request and as a result had not been able to act on opportunities in an expeditious manner. This is always a difficult issue to assess as the agency has to have sufficient information to process the request and the onus may be on companies to provide better information with their requests.

Other agencies that were mentioned in this study with respect to support for development and commercialization were the Industrial Research Assistance Program (IRAP) of the National Research Council (two positive comments), the Department of Development and Rural Renewal (three positive comments) and Industry Canada (two positive comments). There were three comments by companies that had applied to CIDA and the IFIs. One positive has been discussed in Section 3.3.4.5. The other two companies felt that their experience with CIDA in attempting to develop foreign projects and markets had not been satisfactory. One company had pursued an opportunity, developed contacts in the host country, waited an inordinate length of time for CIDA to process the application and then been turned down. Further, CIDA had passed on their evaluation to the host government making it difficult for the company to seek other funding sources for the project.

When companies were asked whether they had accessed funding to directly develop export markets, the fund that was most frequently mentioned was the Program for Export Marketing Development (PEMD). Fourteen companies and four focus groups made comments on this program. The comments were split between positive and negative experiences. The positive experiences related to companies that had used the funds to visit foreign markets and establish contacts that had subsequently proved useful to the export endeavours of the company.

The negative comments on PEMD provided by six companies and three focus groups did not reflect on the objective of the program. Most of these companies felt that they had achieved their objectives in terms of the contacts made and potential markets explored. Rather, the negative comments focused on two issues, namely the extent of the funding and the reporting process after the PEMD funding was spent. The former point, made by at least three companies was that the development of export markets usually required multiple visits to potential clients before the effort brought results. PEMD (and other programs) does not appear to allow for this and it would be useful if funding could be provided in an amount, and for a time period, that might recognize this. Several companies commented that they had found it difficult to maintain the reporting procedures required over a three year period following receipt of PEMD funding. In two cases companies stated that they had repaid the required amount early so that they could be released from the reporting requirements. These comments appear to conflict with the process as outlined by officials responsible for administering the program. While it has not been possible to resolve this apparent difference, it is possible that the companies that made these comments had accessed PEMD funding several years ago prior to changes instituted in the reporting procedures in recent years.

There were at least three comments, two from companies and one from a source at Memorial University, that opposed any funding given by government to provide direct financial contributions to companies at any stage in the export development process. These individuals felt that government should direct its efforts at incentive programs such as tax reduction which reward successful companies. One of these individuals felt that programs such as PEMD rewarded failure, as it requires companies that use the funding to create successful exporting ventures to repay the funding, while those that do not succeed do not have to repay anything. These appeared to be minority views, not shared by most of the companies participating in this study. Several other opinions were expressed by experienced exporters, that companies that have successfully used financial assistance to achieve export sales should not be discouraged or restricted in seeking additional assistance for new ventures. Rather more emphasis should be placed on supporting the export efforts of SMEs that have proven their ability in this regard.

3.3.8.3 Trade Shows

Trade shows are seen as a useful way of gaining exposure to a potential market and 17 companies had attended trade shows or were regular participants in trade shows. In addition, six focus groups discussed various aspects of trade shows and the topic also came up in discussions with industry associations and other individuals who were interviewed. Reaction to trade shows is generally positive, although the topic also elicited several negative comments as well. Most of the companies felt that attendance at a trade show was a positive experience that assisted them to evaluate new markets, or maintain a profile in existing markets. At least three of the responding companies

indicated that they were now expected to attend certain trade shows as their clients expected to see them there. One company, in the cultural industries sector stated that they had attended the same show three times, with little success, before they were approached by potential buyers. The buyers indicated that regular attendance was required to 'demonstrate' their long term viability and buyers needed to have this proof before they did business.

Many companies attend trade shows of their choosing, usually specialized shows that ensure that there will be a high probability of meeting prospective clients. These specialized trade shows range from the oil and gas shows in locations such as Houston, to specialized food shows in Germany and international music or film shows in France. In each case the company (or organization) attends knowing that the probability is high that they will meet with success. One participant in these shows indicated that success at a large show required careful preparation and hard work, as it was important to develop a strategy and decide who would be targeted before attending.

Governments often encourage companies to attend shows, or in some cases to participate in a mission to a particular city or region, in order to show the capabilities that are inherent to this Province in a particular sector. These ventures elicited a very mixed response from those companies that had participated. Several companies felt that they had benefitted from the experience and that being a part of a government display at a show provided them with a profile that as a small company they would not have been able to achieve otherwise. One company commented very favourably on a trade mission to the US where a Provincial Government Minister had accompanied the companies and had provided the necessary profile to attract the attention of foreign business persons. In this case, the perception by the foreign business people that the Newfoundland Government endorsed and supported the company had assisted the company in establishing their credibility and building export links.

There were also several criticisms of these government-sponsored ventures. One company stated that being associated with government was negatively perceived by prospective customers, especially in the US. Four companies commented that the trade shows in which government participates were not appropriate to their needs and did not attract the types of companies they were seeking as customers. Several companies, particularly in two of the focus group sessions commented that they felt pressured into attending trade shows in which they had little interest. Three companies indicated that they had participated in a Team Canada mission, or a similar venture. Their experience on these missions were generally negative. These missions often are high profile and attract larger, mainland companies, so that the small companies feel that they are pushed aside. As a result the overall feeling was that may be better not to participate in these unless the company was established.

3.3.8.4 Foreign Trade Posts

Most Canadian consulates have trade officers on their staff who have responsibilities to assist Canadian companies to develop export links in that particular country. Several companies interviewed or participating in focus groups had used this service at some stage, and in various countries. The overall comment on the service from these officers was varied. This is in part due to the level of understanding of companies accessing this service. There has often been an expectation that the trade officer would provide lists of prospective customers, arrange meetings with these customers and assist with follow-up after the visit. For small companies making their first trips to a potential export location, this is an unrealistic expectation.

Two focus group sessions held in St. John's discussed the value of using these trade officers. It was agreed within these groups that companies had to have realistic expectations of the services that they could expect to receive. Having stated this, it was felt that there was not consistent service from the trade officers at the various consulates, with some proving more useful than others. This may reflect upon the level of commitment of officers who may have many demands on their time. It was generally agreed by companies who had used these services that companies should be made aware of what levels of assistance they can expect from these posts and that emphasis should be placed on being as well prepared as possible before leaving Newfoundland on a marketing trip.

4.0 Sectoral and Regional Issues

4.1 Sectoral Issues

The following section provides a more detailed assessment of export issues raised by SMEs in the context of each of the sectors in which their businesses operate. Some issues which are common to or similar in several sectors may, therefore, appear under one or more sectors but the nature of these issues and their impact may vary between sectors. To facilitate this analysis, the Innovation and Information Technology sectors have been combined as have the Agri-foods and Fisheries / Aquaculture sectors. This has been necessary because of similarities in the nature of businesses, export activities, and related issues in these sectors. Where possible, specific issues relevant to this study have been highlighted in bold italic print.

4.1.1 Innovation and Information Technology Sectors

Seven SMEs in this sector were interviewed while another eleven participated in focus groups. All companies are exporting to some degree. Three of these primarily provide IT services while

thirteen primarily provide product and two companies provide both. Two companies evolved from or are associated with larger, established organizations outside the Province. The following analysis of export development issues distinguishes between SMEs providing IT services and those providing innovative products. The primary requirement in the sector is access to technically skilled human resources. Innovative products, unlike most other goods produced in the Province for export, tend to be of high value in relation to their size and weight, and therefore, less affected by location disadvantages such as transportation and break-bulk points. While companies in this sector are able to locate anywhere in the Province, the industry is highly concentrated in the Avalon Region and all but one of the companies participating in the study are based in that region.

IT Services

IT services encompass consulting in custom software application development often using proprietary tools, e.g. ERP, web site and e-business development, and network / computer support. There is a relatively small local market for IT services. Much of the existing market is based on the requirements of Provincial Government and regional Federal offices located in Newfoundland as well as some larger industries such as offshore oil and gas companies. There is strong competition in this market and xwave (an Aliant Company) plays a dominant role, particularly in large system development. SMEs in this sector have generally had to establish small niche capabilities and markets to survive and opportunities for growth for them in the Province are very limited.

One company noted that the Federal Government presents a large market for IT services but much of it is sourced from Ottawa and is awarded to big companies with representation in the region which have established contacts and previous work history with the Departments involved. Two of the more well established firms indicated that Newfoundland IT companies are not taken seriously by potential clients in Central Canada seemingly based on an unfounded and unjustified perception developed in this market that the Province does not have any significant capability in IT. Newfoundland IT companies are much more readily received in the US and other foreign markets where they are considered the same as any other Canadian IT company. (This viewpoint has previously been encountered by members of the study team in consultations with IT companies outside this assignment.) ***There is a need to raise awareness of Newfoundland IT capabilities and improve the image of local companies in Central Canada in order to help open new markets in this area.***

At least three SMEs providing IT services have in recent years found attractive export markets in the US driven by a strong US economy and associated high demand for IT personnel, relatively low rates charged by Newfoundland companies, and high \$US/\$CAN exchange rates. Access has been facilitated under NAFTA. In some cases, employees work in the US at client sites returning to the Province periodically, while in other instances the work is performed primarily in their offices here in the Province. Markets for IT services are concentrated in urban centres in different areas

of the US. Exports to the US have generally resulted in growth within these companies in terms of both revenues and employees. **The risk is that some of the demand and cost advantages supporting exports to the US may diminish over time resulting in diminished markets and revenues for the SMEs involved.**

Initial markets in the US have been secured through a variety of means including incidental contact, recruitment agencies, referral by previous clients, and focused marketing effort. Companies have generally been able to capitalize on the quality of their work and their cost performance in initial contracts to get further work. Much of this has been obtained through follow-on work or referrals from satisfied clients. This reflects the importance and appropriateness of "Relationship-Based Marketing" to the knowledge-based service industries in finding and capitalizing on new export opportunities as outlined previously. **Companies in the market are realizing that there is potential to grow in this market. Further, they must broaden and strengthen their market base in the US in order to increase permanency and weather any future potential downturns.** Approaches have varied ranging from marketing trips, employing personnel/agents in target cities, and use of references on Internet client sites. **At present, marketing efforts are primarily funded out of cash flow and are consequently limited. Additional sources of working capital are required for market development activities.**

To date, these IT service companies have largely marketed independently with limited support from, interaction with, or participation by government. **The majority of companies from this sector participating in this study indicated that they were unaware of the full extent of export support resources and services which may be available to them. They felt that government agencies need to work more closely with companies in the sector to help them relate their needs to available programs.** IT service companies more or less see each other as competitors and are not receptive to participating in trade initiatives such as shows and missions with other IT service companies. This is not generally the case for innovative products companies because of the very diverse nature of their products.

Innovative Products

Products provided by companies in this sector encompass both IT, e.g. software, data, and multi-media learning products on hard media or via the Internet, as well as innovative equipment and instrumentation. Most of the companies involved from this sector in the study have had an export focus from their inception because of limited local and regional markets. Because of their small size, they have tended to focus on niche applications where they believe they have an innovative advantage which allows them to compete effectively on a national or international basis. Product development is often initially driven by the principals of the company who have strong backgrounds in the application field and/or the technology. In one instance a company acquired its core software through its parent company's purchase of another company in order to support core activities and

it has subsequently invested in the further development and marketing of the software. SMEs in the Province working in this area have achieved varying but limited levels of commercial success but have generally not been able to realize the rapid and sustained growth often associated with this sector.

Most companies participating from this sector indicated that their predominant problem is in securing working capital. As most companies in this sector are initially focused on turning an idea into a product, their initial requirement is for research and development funds, most of which is spent on highly skilled labour. While capital assets in the form of specialized computer hardware and development tools are important, they are generally eclipsed by labour costs. R&D working capital is often assembled from personal investment by the principals, some specialized funding programs such as SmartShip (CCMC) and the Offshore Development Fund (DITT / ACOA), as well as angel investors. Limitations on these funds combined with cost overruns often limit the functionality and market readiness of the initial product.

After the initial product is complete, companies face a largely unanticipated challenge in commercializing and marketing their product as well as securing adequate working capital for this purpose. Companies have indicated that this aspect is often not fully considered prior to product completion and they have not appreciated the time and effort involved, the options available, or potential cash requirements. Consumer based products which must generally sell in volume for a relatively low price often require more effort and resources to commercialize than higher value specialized products which are marketed to more focused commercial customers. Most of the SMEs available sources of working capital have been fully tapped at this point. Raising venture capital for this purpose is very difficult as the primary sources of such funds are based in Central Canada or the US and they have little knowledge or interest in prospective investments in this region. **Again, the opinion was expressed based on the experiences of the companies involved that an investment of effort is needed to improve the credibility and image of Newfoundland companies in this sector.**

One company has benefitted from input by a mentor experienced in the sector who subsequently took an equity and management position. **Other SMEs have indicated that such mentor services might be of value in understanding the commercialization process and markets as well as for arranging working capital.**

Another company which produces low value, high volume product has tackled this problem by establishing a variety of marketing relationships with much larger, established companies. This allows their products to be incorporated into and distributed with the larger firms' software. It uses trade shows and other such events to identify potential partners and to introduce them to their product. The company pointed out that as a small IT firm, establishing markets in the US allows

it to do things large companies in the field do not do, because such activities are not within their focus or expertise. Small companies are, therefore, perceived by bigger companies as offering potential new value and, therefore, there is a willingness to work together. The risk is that the large company realizing the potential opportunity could decide to enter the market on its own and overwhelm the small company. **Companies producing innovative products see trade show participation as a very useful part of their commercialization and marketing effort.** Several IT companies indicated that in this industry it is absolutely vital to attend the big North American IT trade shows year after year to establish and confirm their health and growth, even though the actual benefit in sales may be marginal. **Because of the diverse nature of the products, they do not generally perceive others in the sector as competitors and, therefore, they are generally not adverse to participating in focused trade shows together. Their diverse nature, however, makes it difficult to identify trade development events of common interest.**

4.1.2 Forest Products Sector

Three SMEs in this sector were interviewed for this study and one other company participated in a focus group. All are located off the Avalon, one in Eastern Newfoundland and the others in Western Newfoundland.

SMEs in this sector are primarily involved in softwood lumber manufacturing which in most cases also involves harvesting the raw timber. A few companies have diversified to exploit perceived niche opportunities. One company interviewed is producing hardwood flooring from underutilized birch stands left after clear-cutting. Another company is producing and exporting log homes. Yet another company interviewed related an attempt to produce manufactured wood panels for export to Europe for furniture use. This attempt failed because the knotty nature of local wood was rejected by the market. The mixed composition of the forest obliges lumber producers to also harvest pulpwood and sell this together with sawmill waste to pulp and paper mills. This provides an added source of revenue, however, because of the limited market and the transportation costs, the realizable revenue is only marginal. **The growth of the forest products industry in the Province is constrained by available timber lands (large portions of forested lands are controlled by the paper companies) and the low saw log composition and growth rate of the forest. It is also constrained to a degree by the nature and quality of the wood.)**

While there are many sawmills in the Province, most are very small and basically serve the needs of their local communities or sell rough, partly finished timbers to larger producers. A small proportion of sawmills operate on a more commercial and wider market basis. **A significant impediment to business development and consequently export growth for many saw mill owners in the Province is a lack of business skills and knowledge, particularly in marketing, required to transition from small community based operations to competitive, commercial**

enterprises. The larger and more successful commercial lumber producers have generally evolved from small operations based primarily on the business skills of the owners. These operations are, however, still quite small by North American standards. Because of the limitations placed on growth by the resource, the more astute of these companies have focused on maximizing value.

The Province is a net importer of lumber primarily because it cannot produce the range of products and associated volumes required. Historically, Newfoundland and Labrador sawmills have been at a competitive disadvantage in local and export markets against large lumber producers and distributors from the mainland. Mainland producers and distributors can be profitable at lower prices because of their large production capacity and associated economies of scale, lower timber costs, and because of their wider product range which gives them more flexibility and leverage with retailers. There have also been instances where mainland suppliers have 'dumped' product in Newfoundland at extremely low prices. **Quality has been a competitive challenge for Newfoundland sawmills in the past and remains so for companies wishing to transition to more competitive markets.** While Newfoundland timber tends to grow slower and be more dense which is a positive characteristic, it also contains considerable 'twist' which distorts the lumber as it dries and is highly undesirable in finished construction. In recent years, some local sawmills have addressed this by installing kiln drying facilities. Another export quality issue is wane or bark edges because during insect outbreaks, wane is a mode of possibly spreading the infestation and may be rejected by importing countries. Such instances can lead to import restrictions being imposed on all suppliers from the Province. **Transportation has also been a major competitive factor for local lumber producers in developing exports because of the distance to major market centres, associated costs, and dependability of service.**

During the 1970's and 1980's, Newfoundland and Labrador shipped only limited amounts of lumber from the Province to the mainland and exported almost no product outside the country. Several factors have emerged in the 1990's which have opened new export opportunities for local sawmills, particularly in the US and indirectly in Canada. Demand for lumber in the US is very high because of the strong economy and associated construction market. This has taxed the US domestic lumber capacity and pushed up prices, creating a market opportunity for competitively priced lumber imports from Canada. Canadian lumber producers have the advantage of extremely favourable exchange rates in this regard and the returns available have more than offset the transportation and other incremental costs involved. Moreover, producers in eastern Canada have had an added advantage because lumber from western Canada has been subject to import restrictions for the past several years on the grounds that it was subsidized by government and posed unfair competition to US suppliers.

A small group of commercial sawmills in Newfoundland have exploited this opportunity, two of which participated in this study. Initially, they found markets through lumber brokers in Canada

who were selling into the US. They realized, however, that they could make more money by dealing directly with the US buyers and over time investigated markets, market requirements, e.g. bar coding, transportation options and costs, and import regulations and began exporting. **Many smaller mills wishing to enter this export market do not have the human or financial resources to acquire this knowledge and capitalize on it.** Several of the larger mills have co-operated with each other in this regard. Lumber is now the Province's seventh largest export commodity.

Import restrictions on western Canadian lumber are due to expire at the end of March 2001 and they have realized that other advantages on which their exports have been developed may diminish over time. To hedge against such events, these mills have also co-operated in developing a reputation in the US as high quality, reliable suppliers which will help ensure their place in these markets in the long term. Some lumber (generally lower quality) also continues to be sold to mainland brokers and much of this is repackaged and exported to the US. At least one sawmill has become so adept at exporting to the US market that it is now successfully using e-commerce in the form of an online brokerage (infomediary) to bid on orders submitted by buyers in the US. The company is able to do this because it has developed knowledge and experience of market requirements, transportation costs and delivery times, as well as customs requirements and costs and therefore can respond within the available 30 minute window. Others in this group are known to be looking at using e-commerce for this purpose.

Some of these lumber producers are exploring and testing export markets in other diverse areas. Companies are exploring potential opportunities in areas which have little or no lumber production of their own, such as the Carribean, Iceland, and the Middle East. These companies are largely doing this on their own and not through government sponsored trade missions because of diverse and sometimes competitive interests associated with such events. **Public support for a more individual trade development approach at the working level (similar to 'mini-missions' being organized to New England by DITT) might speed up development of such markets. Transportation remains a major concern in developing such export markets because of the lack of direct transportation links from Newfoundland and associated high costs and delivery problems.**

4.1.3 Mineral Products Sector

While there are numerous mines in the Province ranging from large to small, most of these produce minerals such as copper, gold, and iron ore which are commodities and are therefore outside the focus of this study. The primary focus of the few SMEs in this sector is on producing and marketing dimension stone products of various types, including granite and slate. Products include granite monuments(of which the largest market segment is cemetery monuments), architectural tile,

counter tops, as well as slate floor and roofing tile and specialty gift ware. The dimension stone industry in the Province is not large nor well established. Only one company within this sector was interviewed for this study.

Businesses in the sector have started up after becoming aware of a deposit of suitable stone and some knowledge of its potential marketability and value. The lack of experience associated with this industry in the Province means that SMEs starting such a business are presented with several challenges.

One such challenge has been in assessing the nature and extent of the deposit and in building a viable development plan based on this knowledge and a detailed insight into the markets for the quarry material. The assessment of the deposit includes understanding the variations in the grade and nature of the stone in the deposit, amount of waste to be produced and the marketability of all materials. ***Specialized expertise of this nature, in particular of dimension stone products, is not readily accessible in the Province.***

Another challenge is the lack of a pool of appropriately skilled and experienced personnel in the Province which means that management and workers must either be trained or brought into the Province. Both options have presented financial and management challenges. An important aspect of training is to make workers aware of quality standards and to adhere to quality control procedures to avoid substandard product and consequent lost revenues.

Perhaps the biggest challenges are in establishing an effective approach to marketing and export development. While some product is sold in the Province, the local market is too small to absorb the output and companies are consequently obliged to seek markets outside the Province. While the rest of Canada offers a wider market, the US is at present the most attractive market because of the high currency exchange rate and high demand for some products such as architectural tile and counter tops. Typically, each quarry produces a limited range of dimension stone products determined by the qualities and characteristics of the stone such as colour, texture, homogeneity, and recoverable size. This means that a single quarry cannot not provide a full range of products and selection of characteristics demanded by the consumer. In fact, retailers generally carry product from producers in many different regions and countries. ***At present, North American producers are facing stiff competition from third world producers such as India which, because of cheap labour, can offer acceptable products at competitive prices, even after absorbing the transportation costs involved.***

Small, independent quarries are, therefore, faced with the choice of marketing their limited product offerings directly to retailers on a national and international basis or establishing relationships with distributors (often large, established dimension stone producers) that have established markets,

Transportation costs are very expensive for this industry because of the size and weight of the product. Handling is also critical to avoid damage. The incremental costs of getting product to distribution centres on the mainland must be deducted from the available margins placing local producers at a disadvantage over competitors.

4.1.4 Manufacturing Sector

The manufacturing sector encompasses SMEs producing goods not specifically included in any of the other sectors. The range of products encompassed by the companies participating in this study includes apparel (not craft apparel), building products, specialty lighting, compost material, furniture, recreational vehicles, boats, packaging materials, and cleaning products. Companies ranged in business and export experience from start-up to well established. In total, 13 companies were interviewed in this sector while another 10 participated in focus groups. Because of the wide range of products involved and the different nature of the industries involved, it is not possible to provide a comprehensive overview of each segment. It is, however, possible to identify shared characteristics, experiences and challenges.

Only a few industries within this sector, e.g. boat building, have been able to sustain themselves on the local market. For boat builders and others in this position, exports are seen as a means of achieving growth, improving profitability, and reducing their dependence on local markets. For most other SMEs in the manufacturing sector, the Newfoundland market for their products is not large enough to survive and provide a reasonable return on investment. SMEs in this position must, therefore, seek markets on the mainland or through exports outside the country. Most companies in this position have realized this from the outset or very early in their business development. While the Newfoundland market may be small, for some companies consulted, it has provided a stable base for initial development of their product and a source of cash flow from which to begin building exports.

Two established exporters manufacturing very different products indicated that transitioning from an initially small manufacturer to a size which could effectively win and supply large export contracts presented a major challenge in terms of management capability, skilled labour, production facilities, and finances - particularly working capital. They consider this ability to transition to be a key factor in the evolution of successful exporting.

The approaches to developing exports vary widely within this sector. One company in the apparel industry indicated that it obtains most of its orders through national public procurement requirements and, therefore, produces only custom made products to client specifications. Another apparel company manufacturing specialized outdoor wear focuses on marketing through textile and trade shows in the fashion industry. In fact, five companies interviewed and several others in focus

groups indicated that trade shows were key elements of their market and export development efforts. In virtually all cases, the shows they attend, or would like to attend, are narrowly focused on a market corresponding to their own business interests. Two other companies indicated that they use distributors for primary marketing and attend shows to promote their products to customers and support distributors as well as to attract new distributors.

Most SMEs in this sector indicated that their export focus is currently on the US because of the size and demand of this market, disposable income for consumer products, advantageous currency exchange rates, as well as access under NAFTA and cultural similarities, e.g. language, which facilitate working in this market. **One company manufacturing a specialized, technology based product indicated that it had initially encountered skepticism from potential buyers in the rest of Canada because the company was located in Newfoundland.** It took a significant and protracted marketing effort to break down some of the underlying attitudes and to convince the parties involved of the credibility of the company and the product. This attitude has not been evident in any other country in which the company deals. **A similar experience was related whereby an established company seeking support through CIDA Inc. for a development project in Southeast Asia was turned down because CIDA did not have confidence that the company had the capacity to perform the work.** Despite this, and the fact that CIDA conveyed this decision to the company's clients in the target country, the company was able to successfully satisfy the clients and enter into a contract without CIDA.

A major impediment to export development raised by seven companies interviewed and several others in focus groups is the cost and reliability of transporting products in bulk out of the Province and bringing in raw materials. Several companies indicated that transportation is the single most significant cost factor affecting their competitive position in export markets. Some have been able to take advantage of back-haul capacity and associated lower rates to reduce costs. The issue is particularly critical for companies producing heavy or bulky products and products of a fragile nature or others requiring special handling. Two companies indicated that they have had to establish their own trucking operations to ensure reliability of service. One of these indicated that the removal of the Atlantic Freight Subsidy program was a major setback for them and has significantly changed the way they do business. **A related issue is the absence of cost efficient shipping linkages with potential offshore markets e.g. Europe, which makes exporting to these markets cost prohibitive and difficult to service.** This was pointed out by three companies which have investigated the options available. For two of the companies actively targeting Europe and other offshore markets, a more viable alternative may be to establish new production facilities in these target markets.

As several of the companies consulted are involved in non-traditional industries, the lack of skilled, experienced workers in their field is a problem in trying to transition to a size

which can export effectively. Two companies also mentioned ongoing difficulties in attracting and maintaining a stable, trained workforce in rural communities. This stems from a long history of resource based seasonal employment practices. Wage subsidy programs are considered important in addressing these needs. Labour costs in Newfoundland and Labrador are somewhat lower compared to the rest of Canada, the US and Europe and therefore, are an advantage in these markets but are a disadvantage when competing against products from third world countries where labour is cheap.

Two trade irritants were mentioned by the companies consulted. One company exporting into Saint Pierre indicated that HST and customs regulations have affected the reliability and caused some delays in getting his products to customers. Two other companies, which require their products to be inspected by Agri-foods before being exported, claim that fees are often charged for certification without inspections being done and this is counterproductive to their export effort.

Four of the more experienced exporting companies indicated that they stress quality, innovation, and service as a way of offsetting location disadvantages.

Non-traditional industries are also challenged by a lack of resource people in the Province with knowledge and experience in their business which the companies can access for advice about production, markets, marketing, and other issues specific to their operation. As a result, some companies have invested a great deal of time in searching for such help outside the Province. **Several companies have indicated that a mentor system would help SMEs to deal more effectively with specific business and marketing issues and to avoid costly mistakes and wasted time.** The general consensus was that government was in the best position to organize and fund such a mentor program. This would include identifying and enlisting a pool of mentors with various appropriate knowledge and experience and underwriting the associated costs for travel and professional time. One company suggested that government might require some companies to use a mentor to address issues of concern before being considered for other forms of assistance.

The primary financial need expressed by six companies interviewed and several companies participating in focus groups is for working capital to undertake market and export development activities and to finance the building of inventories to meet anticipated demand. A common opinion was that the companies had underestimated the effort and cost involved in this regard when they began exporting. **Higher costs in the US and Europe for marketing e.g. travel, accommodations is a factor.** While most estimate their needs in the tens to hundreds of thousands of dollars in this regard, one established manufacturer which has been investigating and building a market for its consumer product line in Europe estimates that it needs about \$5 million for promotion in the next year or two. All companies are faced with the problem

that government has cut back on its financial support for marketing development - particularly promotion.

Banks also will generally not loan funds for this purpose as such loans are not tied to assets and are considered a high risk. One small rurally based company also notes that its bank was reluctant to provide working capital to fund receivables. Another much larger and established rural manufacturer indicated that it had developed an excellent relationship with its bank and had successfully established and maintained lines of credit and financing for expansions. **It was very concerned, however, that current consolidation within the Canadian banking system will result in a loss of rural branches, such as the one it deals with, to regional centres (maybe outside the Province) destroying the knowledge and trust which has been developed and making loans harder to get.**

Two companies indicated their lack of awareness of government programs was a constraint to development of their export business. These companies and several others in focus groups indicated that a fundamental problem is getting a comprehensive overview of programs, applicable activities, eligibility requirements, names of responsible agencies and contact points. At present they spend too much time trying to get this information piecemeal from various sources.

Three companies interviewed (two established exporters and one more recent exporter) believe that government needs to take a longer term approach to assisting companies. The present system considers only the immediate or short term needs - typically one year. They complain that it often takes up to five years to achieve success and, therefore, funding programs should be structured to provide assistance over this period. The lack of such long term support often results in SMEs having to seek other investors at a point in their development where they have not yet achieved the success necessary to attract investors and cannot afford the time and distraction from building their business. A large manufacturer which received very substantial government assistance to set up, complains that it is no longer considered eligible for financing needed to undertake new market ventures it is considering because it is now generating positive cash flow and has exhausted its "share" of available funds. It argues that it is being penalized for being successful and that assistance should be provided based on a company's record of success and the merits / benefits of a proposal. The last point was echoed by two other companies.

One company pointed out that the non-traditional nature of its business and lack of familiarity / detailed knowledge about it within funding agencies had caused long delays in considering its application for financial assistance.

The majority of companies consulted indicated that both levels of government have important roles in supporting SME business and export development. **One key area is in researching and**

providing market intelligence and contacts for specific business interests in foreign countries through trade posts. There is, however, considerable variation between companies' expectations in this regard and the level of effort provided by different posts.

Five companies suggested that government should be providing detailed information in various aspects of exporting of importance to them. Suggested subject matter included:

- customs requirements, duties, tariffs, and rebates with the aim of minimizing costs and improving clearance time and effort;
- existing and changing product regulations, codes, and design requirements in various jurisdictions (One company indicated that such requirements had precluded it from European markets because of the costs involved while another company indicated they had opened a new market opportunity for their products.);
- export law.

Because of the diversity within this sector, several companies indicated that government organized trade shows often did not match their niche business focus. The recent New England trade development initiative is seen by several companies as the right approach to trade missions - low key, handpicked companies, focused effort, well researched and prepared in advance. Team Canada trade missions and shows were seen by those companies which have participated in them to be important to developing credibility in certain foreign countries. The Provincial and Federal Governments should be prepared to lobby on behalf of local suppliers in foreign markets where requested and potentially beneficial. **Several companies cautioned that it is dangerous to focus on foreign markets before examining and developing market opportunities closer to home.** Two of these related personal experiences where they had been encouraged to participate in Team Canada trade missions in foreign countries and had consequently diverted much of their attention and resources to pursuing these markets. In both cases, they ran out of money before they could conclude a deal and the effort involved had very detrimental impacts for their core business. One company commented that reverse trade missions had proven very effective in attracting new business for little cost.

4.1.5 Biotechnology Sector

Biotechnology is an old technology (fermentation has been used for centuries in the beverage industry) that has received renewed attention in the past decades with the emergence of genetic engineering. As an emerging sector it has attained a certain glamour as innovative companies, especially in the US have developed the technology to manufacture new drugs. In Newfoundland it is a new, small sector, with most of the companies in the sector having ties to Memorial University, where the technology has developed from basic research.

Two biotechnology companies were interviewed for this study and another company interviewed in the agriculture sector indicated that it was examining the possibility of developing a nutraceutical product line. The two companies interviewed had different product lines, one producing a clinical test kit using anti-bodies and the other a gene implant that produced a growth hormone in fish. Of the two SMEs interviewed one had been exporting for some time and had an established distribution system, while the other was still involved in getting regulatory approval for its product. ***A key factor within the biotechnology sector at present is its dependence on highly trained scientists and the research infrastructure that these scientists require. Thus, start up companies are often spawned from research at MUN and rely on support from MUN for a considerable period, even after they have established product sales.***

This relationship with the university can cause these companies some difficulties as they are sometimes mistaken by both prospective clients and investors as an extension of the university. This problem has been recognized and the companies are working to create more understanding of their position and needs. One company interviewed had received funding from ACOA that had assisted at key points in its development, both in terms of operating funding and in allowing it to purchase a hatchery that it required for its development. The other company had received funding to support it with travel to secure markets. Both companies commented that the available funding was insufficient for biotechnology companies.

Biotechnology products require considerable research and development, as well as extensive testing and regulatory approvals. This means that the products can take up to ten years before they are ready to market. While there are often good returns on investment for biotechnology products, SMEs require considerable investment (in terms of both infrastructure and personnel) in order to bring these products to market. It has been difficult to attract the investment required and often government assistance is not adequate to provide the support needed by SMEs in this sector. One company has now entered into a relationship with an investor that has provided a secure base from which it can develop its international markets. A trained biotechnology scientist can demand a salary in excess of \$70,000 so that the research and development stage, which can take several years, is expensive and does not produce any cash flow. ***Ways of adequately supporting worthwhile biotechnology ventures, through injections of working capital or by attracting venture capital for this purpose are needed if this sector is to grow in Newfoundland.***

There is international demand for innovative biotechnology products and often the marketing of these products is not the major challenge for biotechnology companies. In the case of one company its market is limited to hospitals with specific equipment. As it knows where these hospitals are, it has established a distribution network to market and supply these locations.

In the other case, the investors in the company are handling all the marketing through their offices in the United States.

The third company that indicated it was moving into the area of nutraceuticals, (dietary supplements such as naturally occurring anti-oxidants and omega-3 fatty acids) does not have strong contacts with the university. It has done background work to define a product that appears to have good market potential. The company faces a number of challenges to bring this project to fruition, but the owner has demonstrated entrepreneurial skills that should help. As this project is in a very early phase, not much market research has been done, but there are known expanding international markets for these products. One challenge that this company has faced is the lack of understanding of the nutraceuticals industry within government. It feels that government officials should do more to increase their understanding of the potential that emerging fields such as this one offer to local companies that are prepared to get involved in development.

Overall, the biotechnology sector is diverse and requires a strong mix of business and scientific training to understand its complexity. ***The companies commented that they did not feel that governments had fully understood their needs and challenges.*** They also indicated that they had not done a good job to date of communicating all these needs and challenges to government. They are making the effort to change this and it could improve the situation for the future.

4.1.6 Cultural Industries Sector

This sector includes crafts, music and film. Three companies were interviewed for this study - one from the music sector and two from film. In addition, two craft companies were included in focus groups and representatives of the film, music and craft industries were present at a focus group for industry associations. The craft industry has been established for some time and has evolved into a small but stable group of SMEs involved in the production of a variety of craft products. These craft products cover a wide range of goods from specialty foods to apparel and include some forms of artwork. Marketing is done either through direct retail sales or through specific craft shows in other parts of Canada, which mainly attract buyers for wholesale or retail outlets. At this stage there appears to be little marketing of crafts into the United States or other international markets. Both the film and music industries are newer and efforts to market their product are recent. Both are reaching out to broader markets with products that have a strong local content. ***These products are perceived as new and unique and, therefore, of interest but have limited market appeal at present.*** Companies have attempted to establish contacts in the international markets through their presence at international trade shows. This has met with limited success to date, but there are encouraging signs of increased interest in these products.

In all cases the companies participating in this sector tend to be very small. ***In the case of the craft industry, companies prefer to stay small, as they feel that expansion could negatively affect quality.*** It may also reflect on limited management skills in these companies needed to make the transition into larger companies capable of serving export markets. Examples have been given of export markets being lost because these companies will not grow to accommodate demand. The craft industry has developed strategies for seeking markets for its products through the use of a few key trade shows in Halifax, Toronto and Edmonton. In addition, more recently craft companies have begun to use the Internet as a marketing tool. There is a good working relationship between the craft companies and the industry organization that creates a positive synergy.

In the past few years the music industry in Newfoundland has received more prominence through its participation in the East Coast Music Association. It also has an active industry association, the Newfoundland Music Industry Association. This organization has attended the premier trade show for music in France to promote Newfoundland talent. Again, companies are small and tend to focus on niche areas of traditional music. ***This has limited appeal and can be a limitation on the scope of their markets.***

The film industry has also shown growth over the past few years and Newfoundland has done more to attract major productions. Local companies are small and in need of substantial production investment. ***Shows produced in this province have received acclaim, but there is a limited supply of material.*** Most commercial markets, i.e. television, demand material which can be packaged and presented as a series. ***The Newfoundland government has established an investment fund for film but the funds available are limited and often committed to major productions (e.g. Random Passage) leaving smaller companies struggling to fund production projects.*** There are also problems with distribution of material for both cinema and television. ***Established distributors which are most effective in achieving sales also demand a large share of the revenues often leaving little or no net profit for the producers of the product.*** Ontario has established a strong distribution system and Newfoundland companies have used this to get their work shown.

The financial needs of the film industry tend to be much greater than other segments of the cultural industries sector due to the high cost of production and the small margins available after distribution. The critical requirement is to get initial or seed investment which film producers can use to leverage additional funds from federal sources such as Telefilm Canada.

As this sector consists of small companies, they all have difficulties with management skills and business development which is necessary to grow and develop their export capability.

Most companies have established good working relationships with the respective industry associations, and could use these organizations to organize and deliver ongoing support to develop their business skills. It was noted that of all the sectors examined in this study, these SMEs are the most enthusiastic for attending workshops on business development and marketing.

4.1.7 Environmental Industries Sector

The environmental industries sector has shown good growth in Newfoundland over the past decade. This sector has evolved out of a need to better understand and manage the environment, especially with respect to industrial activity, and encompasses specialized consulting, analysis, training, and remediation services and products. Initially, companies in the sector were primarily focused on addressing needs and opportunities in the Province, but in recent years have focused increasingly on export development. This shift in market focus has resulted from increased local competition, limited and often uncertain local demand for services, and maturing capabilities and technologies which have application outside the Province.

It is well-represented by an industry association that has been a strong advocate for the sector and its needs. For this study five companies were interviewed, and another was part of a focus group. One of the companies operated off the Avalon. All the companies had an export record, exporting either product or services, but one had stopped exporting as it found that it had sufficient work in Newfoundland and felt that exporting had affected its chances of competing successfully in the local market.

Of the six environmental SMEs, each is at a different stage in their development and is facing different problems, relating to the product or service they are providing and where they are focusing their export efforts. In most cases though, the companies in this sector appear to have progressed to exporting using their own initiatives and have not required or availed extensively of assistance from government. This does not imply that government has not been useful to these companies, as two had received direct assistance from ACOA during the product development stage which has subsequently resulted in exports. ***Environmental industry companies perceive that because of the relatively recent emergence of this sector, their needs may not be well understood by government and they do not always 'fit' support programs being offered.***

An important issue in this regard noted by the industry association is the inadequacy of Provincial environmental standards and regulations in areas such as municipal sewage treatment and solid waste disposal. Newfoundland and Labrador is behind in these areas compared to other provinces and most western countries primarily because of the infrastructure which would be required to meet such standards and regulations. Local companies, therefore,

have not had the same opportunity as their competition to develop capabilities and experience in these key environmental areas which are needed to compete internationally. Lack of sales in one's home market is a well known problem in trying to achieve export sales.

At least two companies have had negative experiences in seeking CIDA funding or support from international funding institutions (IFIs).

All of the environmental SMEs in this study had devised active strategies to seek export markets and all had experienced some success in achieving exports. In the one case where the company has chosen not to continue its endeavour, it has made this choice based on its efforts and success in the local market and not because of a lack of success elsewhere. ***This is illustrative of the fact that there is an international market for the environmental skills that have been developed in this province and environmental SMEs can be successful exporters.*** The industry association has actively worked to promote exporting within this sector and there should be potential for more environmental industry companies to begin exporting in the future.

Two issues that were raised by most of the companies interviewed was the need for capital and the need to promote local capabilities. As mentioned, ACOA has assisted two companies with investment in product development. ***As is the case in other sectors, there is a shortage of capital to support development and commercialization of environmental products and services.*** Beyond this, companies require support for promoting and marketing their products and services. The companies interviewed for this study have found means of doing this, including, in the case of one company, the use of conferences to promote its expertise. This example illustrates that more flexibility may be necessary for governments to support emerging sectors such as the environmental sector. There are no funding mechanisms that encourage attendance at conferences, as the present funding focus is usually related to trade shows. The environmental companies in this study had some favourable experiences with attendance at trade shows, but overall, the comments were negative. They suggested that the shows usually are not focused enough and they do not get to meet the right clientele. One company reported success at the GLOBAL 94 and Global 96 environmental trade shows in Vancouver. This was a trade show that it had chosen to attend because it was aware that it had a potential clientele at this show.

The environmental sector covers a range of disciplines and is not an easy one to understand in terms of its market approaches and strategies. Companies expressed a concern that they were not well-understood by government agencies, especially when they seek support for export development. ***They feel that government agencies could spend more time learning about the diverse challenges that the sector faces when exporting.*** At the same time, these companies could make more effort, individually and through their industry association, to ensure that government agencies and government officials dealing with exports are aware of their needs and concerns. This is a sophisticated sector, with skilled individuals with a reasonable level of

management skills. Many of these companies have achieved export levels based on their own efforts and therefore should be capable of ensuring that their needs are understood by government.

4.1.8 Offshore Oil and Gas Sector

The focus of this sector is on those companies supplying products and services to the growing offshore oil industry in Newfoundland and their ability to turn their experience and success to export markets in the oil and gas sector. Two companies which have as their primary business focus supply and servicing of the offshore oil and gas industry were interviewed for this study. Several other companies in other sectors which provide products and services to this industry in addition to other markets and business activities were interviewed or were part of a focus group. These included several marine technology companies, and one environmental company.

Of the two companies interviewed, one has been very successful in the local market and is now actively seeking export markets. It is currently generating about two thirds of its revenue from exports and predicts considerable growth over the next few years, mainly in its export activities. The other company is relatively new to the Newfoundland offshore play and is still establishing itself, but is already generating growth, although only in the local market at this stage. This company is best described as export ready.

Most local companies consulted indicated that they are presently focused solely on exploiting opportunities in the Newfoundland and Labrador offshore play. This is not surprising considering that the Newfoundland offshore development continues to grow with the Terra Nova field beginning production next year and at least two other fields moving towards development. **A particular difficulty for Newfoundland companies breaking into the oil and gas supply and service market is their small size and unproven record together with the purchasing practices of the oil companies which favour large, established, international suppliers.** Some companies have achieved considerable success in penetrating this market by entering into joint ventures with established international companies which have the experience, contacts, product / service capacity, and capital to invest. Other companies have been successful in filling niche requirements because of unique local capability.

The interests of the oil and gas sector are represented by an industry association which has built a strong lobby for the sector. **One of the concerns of this association that was brought forward during this study is the need to maximize Newfoundland and Labrador benefits being derived from the developments on the Grand Banks.** Provisions under the Canada / Newfoundland Accord have benefitted Canadian companies but not necessarily local companies. CNSOPB appears to interpret similar provisions under the Canada / Nova Scotia Accord according to the spirit of the agreement to favour Nova Scotia companies. **It is concerned that the full**

extent of these benefits is not being realized and this in turn is limiting local companies in their development of offshore-related capabilities. The association argues that by not achieving the full extent of these benefits, local companies are not developing the expertise required to move into the export market. It has been suggested that another government agency such as ACOA should assume some responsibility for ensuring that the benefits of offshore development accrue to local companies so that they can develop their capabilities and move towards exporting.

Some companies which have been able to successfully penetrate the local offshore oil and gas market, have developed good reputations and contacts from which they have achieved export sales or are contemplating exports. In part this is to gain stability from a diversified market base, and also to allow continued growth within the company.

The two companies interviewed are successful and do not have difficulties acquiring investment capital. They have sufficient operating capital, and interest from investors, to allow them to explore and develop new export markets. **They are believed to be atypical in this regard from other SMEs trying to establish themselves in the offshore oil and gas market which are smaller and do not have the same access to financial resources.**

4.1.9 Agri-foods, Fisheries and Aquaculture

Eight food and beverage companies were consulted through interviews and another three participated in focus groups. In addition, an agency engaged in food industry promotions, research and development also provided input through an interview. All but two are wholly-owned Newfoundland-based companies: one is owned by a larger Maritimes enterprise, although it has considerable autonomy in developing the Newfoundland operation. The other is a subsidiary of a St. John's-based company on which it relies for overall management, but it has prime responsibility for its own exports.

Of the eleven companies (and one agency) consulted, five are in food processing (two manufacture fruit-based foods, two dairy products and one processed meats), three produce a range of beverages, two are aquaculture operations and the remaining two deal with fish processing. These enterprises are spread across the province with at least one in each of the Avalon, East Coast, West Coast, Labrador and in Central Newfoundland regions.

All the food and beverage companies⁴ consulted are exporting, although the degree of exporting differs widely. Three companies are experienced exporters⁵, but only one has been exporting for more than a decade. This company has been in operation for 20 years and during that time it has also been engaged in the processing of a variety of sea foods. The other large company in this sector (in terms of value and variety of products) has been in business for a long time, but its focus on exporting was developed only during the 1990's.

Nine of these companies were founded in the late 1980's or 1990's and represent that new breed of food sector entrepreneurs that have identified niche market export opportunities based largely on high-quality, specialized or unique raw materials (agri-foods and seafood) found in this province. All of these nine companies were founded with a view to exporting, even though some of them started by serving a local market. **Three of these companies - all of them less than five years old - must export as the local Newfoundland market is too small, with one company exporting all of its product.**

All of these food and beverage producers face similar location-related issues, regardless of type of product or location in the province. **Manufacturing food and beverages on the island of Newfoundland or in Labrador for sale to mainland, American or overseas markets involves a break in bulk at ferry or airport terminals or long distances over which to send goods by truck/ferry.** This would seem to be a significant disadvantage in penetrating and maintaining export markets - especially those in North America - compared to mainland competitors in terms of cost, logistics and maintaining freshness/quality of product.

Yet, while two of these companies are struggling to overcome such location disadvantages, the others appear to have already developed various successful strategies in this regard. At least five of these firms have focused on supplying premium products to niche markets which command a high price and cover the high cost of shipping product to export markets. Three of these companies operate from remote parts of the province and seem to have little difficulty selling their goods in export markets at premium prices.

Another reason for success at exporting in the food sector is experience. One firm in particular has a long family history in fish brokering which stood it in good stead when the company's focus changed entirely to producing its current range of agricultural-based food products. It was used to dealing with perishable commodities; it knew basic health and hygiene regulations both domestically and in export destinations; and, it acquired over many years a sound understanding

⁴ The food R&D agency exports its knowledge-based services rather than products. Therefore, the issues raised by this agency on food and beverage exporting are treated separately in this sub-section.

⁵ Defined primarily by export growth rates and success in export markets.

of the food industry brokerage and wholesaling system. Two other firms also acquired considerable experience developing and marketing a range of different types of product locally and in Atlantic Canada prior to seeking central Canadian and overseas market destinations.

Yet another reason for success is the acquisition of marketing skills founded on a thorough understanding of potential export market opportunities gained from extensive research and background analysis. At least three of the companies surveyed, all of them established in the last decade or so, had never been in the food business before. Indeed none of them had ever been engaged in any form of business enterprise. Yet, they appear to have capitalized on export marketing opportunities quite successfully.

The common thread among most of these food and beverage companies, which in part explains their export orientation despite location disadvantages, is the uniqueness of their products for which either there is significant demand in the chosen marketplace or the demand has been created in those markets through skilled advertising and promotions. This applies equally to the agri-foods and seafood products of these companies.

The fish exporting companies of this province report that high tariffs into the European Union (EU) is a major impediment to exporting processed fish products into Europe - especially in pre-packaged, consumer ready portions of groundfish crab, shrimp, etc. Some fish companies steer clear of the EU altogether, preferring to target the US or non-EU markets such as Switzerland which do not impose high tariffs on processed fish products. An alternative strategy employed by a consortium of Newfoundland fish companies is to form partnerships with EU companies in order that semi-processed fish products can enter the EU at lower tariff rates. In one particular case, the Newfoundland consortium ships processed fish in bulk to a Scottish processor who then re-packages the fish into portion packs suitable for sale through the wholesale-retail trades. This arrangement was facilitated by an agreement with the EU negotiated by the Fisheries Association of Newfoundland and Labrador on reduced tariffs for a specific quantity of fish.

For fish processors exporting to the US, the biggest constraint still appears to be the cost and logistics of transportation out of the province. Newfoundland and Labrador is that much further away from eastern seaboard markets than major competitors in the Maritimes which means local fish companies have to make up transportation cost differentials in other ways. ***Also noted (and not just by the seafood companies consulted) are the delays in off-island transportation - ferries and airlines - which can affect product quality and cost. It was pointed out that there are occasionally problems encountered in shipping out product because of limited cargo capacity at regional airports, the infrequency of flights and the low priority accorded to seafood products destined for export by air.***

Apart from tariffs and transportation difficulties, the fish/seafood industry does not appear to be too constrained in its exporting activities - and certainly no more than other manufacturers. After decades of exporting experience in an industry which is dominated and led by several large, integrated fish processing firms with well-established export market systems in place, and where many of the smaller firms often rely on the marketing systems of the larger companies, the fishing industry for the most part claims that it has its exporting activities "down to a fine art". ***The principal constraints on the fish and seafood industry appear to be developmental - accessibility of raw material, licensing restrictions, harvesting and processing regulations, etc. - which ultimately affect exporting behaviour.***

The aquaculture companies consulted had a slightly different view - although transportation and tariff issues can also be significant. ***Their issues focused more on the difficulties of new companies establishing new markets for fairly exotic marine products and especially in attracting sufficient investment capital to expand production to meet anticipated export demand in foreign markets.***

The agri-foods processors also referenced numerous transportation issues - again the problem of manufacturing food and beverage products at a considerable distance from major markets. ***Intra-provincial transportation costs and logistics were occasionally seen as more problematic than those at the inter-provincial or international level.*** Part of this is accounted for by low back-haul rates which food manufacturers can commandeer to transport their goods to the mainland. It was noted, however, that exporters may not be able to count on low back-haul freight rates forever.

Each of the food and beverage companies interviewed referenced a plethora of export development issues which varied by the type of product exported and characteristics of the destination market. ***All but one are currently selling into niche markets since they cannot offer the required product volumes that would interest major wholesalers or food brokers for general distribution in a target market area.*** Instead they sell directly to retail outlets, through agents and, in at least one case, by mail and Internet order. ***Finding appropriate and trustworthy agents was referenced by several companies as a key issue in exporting and this applied especially in the US where the agent/broker system predominates the industry and, therefore, is more critical to success than in Canada.***

Two of the companies have talked to large food distributors in the US and Europe with some degree of success. Their plans are to increase production volumes to match the demand specified by these distributors which again raises the issue of acquiring capital for expansion. One of these companies has modernized and upgraded its plant in recent years in order to gear up production; the other company is constrained in so doing by not being able to raise the required capital locally.

This latter company is looking at overseas partners who might be willing to invest in the operation in exchange for a mutually-beneficial export sales contract.

Exporting to the US and mainland Canada is relatively easy compared to Europe and Asia. ***The competition in Europe is fierce, and there are few food or beverage product lines from Newfoundland that are not already being produced by European firms.*** In the area of fruit confitures, for example, there are many European companies which service the premium market in Europe and they have acquired a solid reputation for these kinds of specialty products and markets. This makes it even more difficult for Newfoundland manufacturers to break into this market without considerable research, on-site planning, negotiations with potential buyers and innovative marketing techniques.

One company has entered into partnership arrangements with European processors and distributors which involve product licensing agreements in order that its products be distributed in Europe. Another company has found a German specialty mail order food company which promotes a couple of lines from the Newfoundland firm in its glossy catalogue. A third company is using a European relative to explore niche marketing opportunities in Europe - and it has been doing so for several years with limited success.

Two of the eleven companies are actively exporting to Asia. One of these has been relatively successful at penetrating markets in certain Asian countries and the volume and value of exports are growing. The other company entered the Asian market through a personal contact - "relationship-based marketing" - and although shipments are infrequent and export volumes are small, the market demand is high. ***However, the company is unable to gear up its level of production to seriously consider increasing shipments to this Asian destination. Once again raising capital for plant expansion is the major constraint.*** For serving distant and often exotic Asian markets, finding a specialized broker or agent is vital since linguistic, cultural and other barriers to business must be taken into account.

The food and beverage companies consulted were inconsistent in their use and opinions on various government export services and programs. However, all did agree that more funding and technical assistance should be made available by government to potential exporters considering the high cost of exploring exporting opportunities. Nevertheless, exporting activity by these firms invariably did not depend on the availability of financial assistance.

Three firms interviewed were openly critical of governments' export health and hygiene regulations arguing that they are costly and time consuming, and therefore, constrained exporting activity. One of the companies focused in on federal meat inspection regulations covering all meat and meat products crossing interprovincial and international borders which are

the prime reason why it is unable to export to any degree. This company has a potential buyer in central Canada who would purchase every pound of meat produced in the plant. Because of the regulations and the fact that the nearest Agriculture and Agri-Food Canada meat inspector is in New Brunswick - too costly to bring in on a regular basis - the only meat leaving the province from the company's plant is shipped out by buyers for their own personal use.

Another firm commenting on government regulations told quite a different tale. This food producer praised the Canadian Food Inspection Agency for being extremely helpful, especially during the construction of the firm's processing facility. Further, this company believes that rigorous Canadian standards for producing, processing and exporting edible food products are a distinct advantage in negotiating export contract arrangements with foreign buyers.

Canada has a good, worldwide reputation for its high-quality food products. **Several of the food and beverage companies noted that while Newfoundland products are commanding respect in US and overseas markets, in mainland Canada they are still fighting negative images of products originating from this province.**

The one food industry R&D agency interviewed confirmed many of the experiences and opinions of the food and beverage companies concerning export activities. In particular, many local producers - in both the agri-foods and seafood industries - are too small and their product volumes too low to be able to enter into substantial export sales contracts. **The main challenge in this sector, therefore, is to help companies evolve and grow in relation to available raw materials and overall export market demand which in turn requires substantial capital investment in plant infrastructure, as well as corporate re-structuring in some cases.** Incorporated in this view is the belief that while niche export marketing can be a valuable introduction to selling products abroad, firms must move beyond the niche marketing stage if they are to become sustainable and successful in the global marketplace.

4.2 Regional Issues

This study set out to examine the export capabilities of SMEs across the province. Of the 45 companies interviewed, the majority (26) are from the Avalon region. Focus group attendance was also skewed to the Avalon with 17 of 32 companies attending focus groups coming from this region. This region is the major commercial region of the province and has attracted clusters of companies operating in sectors such as the offshore, innovation, manufacturing and the environment. The regional export issues that were most evident concerned differences between SMEs operating in the Avalon Region and those in other regions of the Province.

The most significant regional issue that was raised by several companies from all parts of the province was that they felt some form of isolation not being located near to St. John's. This isolation was expressed in a number of ways. For example, two companies on the Burin peninsula indicated that they saw the need to have closer contact with their particular industry associations in order to benefit as a member. They had arranged to do work in St. John's with associates at particular times so that they could attend functions that the industry association had organized. SMEs that are further afield and do not have this option, feel that they lose out on many of the benefits that accrue from these functions, both in terms of the knowledge and the networking. When this is considered together with the fact that many of these SMEs are small, operating in rural areas and often lack management skills, it places them at a disadvantage.

There is also a perception that the regional officials that these companies deal with are not able to make decisions regarding the needs of rural SMEs as these decisions are made in St. John's. There were favourable comment from companies in all regions on the regional-government officials (both DRR and ACOA) that handle business and export issues. The majority of SMEs in all regions felt that these officials were doing a good job in assisting the SMEs, but that these officials were not always in a position to make decisions regarding applications for assistance. More than one SME operating out of a rural area indicated that they would prefer to interact with the actual person making the decision regarding their application, or have the local official who understood their position be able to make the decisions.

The other regional issue that was raised by several SMEs in all parts of the province was that of transportation. This issue has already been discussed but it is seen as an issue that exacerbates the difficulties of exporting from rural Newfoundland and Labrador. The isolation factor also manifests itself in terms of connectivity. The Internet is playing a larger role in a company's business strategy, both in terms of communicating with suppliers and customers and accessing information on potential export opportunities. While this is a means of reducing the isolation, often companies in remote areas do not have ready access to the Internet. While this is a barrier that has been mentioned by a few companies in this study, it is an issue that is likely to disappear soon as Internet service suppliers continue to improve province-wide coverage. It does, however, illustrate the importance of this tool and it could be used effectively in the future to reduce the isolation factor. As both levels of government move to improve their 'electronic interfaces' it will provide opportunities to interact directly with companies in all parts of the province on all issues including export development.

While few companies were interviewed in each of these regions, this study recognized the Burin Peninsula, the Northern Peninsula and Labrador as particularly isolated areas. Each faces its own particular challenges and it is interesting that in each region there are companies that are striving to overcome these particular difficulties. The Northern Peninsula is perhaps the most isolated

region as its closest access to government assistance on export issues is Corner Brook and this, together with its isolation with respect to transportation, means that companies face significant challenges. Fundamental business problems include lack of investment capital, lack of business and entrepreneurial skills, and successful business models. In Labrador, two issues are presently being examined to determine whether there are new opportunities to encourage exports. The first is the opening of the Trans Labrador Highway as a year-round road. This has meant that supplies are now trucked in as far as Happy Valley. The trucks return empty and there are possibilities of using this back-haul as an export opportunity. As yet there have not been any companies taking advantage of this. The other opportunity that is being examined is the potential for exports through contacts with European based NATO forces conducting low-level flight training at Goose Bay. Local companies are presently exploring whether these contacts represent substantial export potential and, if so, how best to exploit them.

The Burin Peninsula has a unique opportunity as it has an export market in close proximity in the French islands of St. Pierre and Miquelon. It is estimated that these islands import approximately \$100 million per year in goods and services. However, very little of these imports come from Newfoundland and Labrador, or more particularly, the Burin Peninsula. Developing the potential of this nearby export market should be a priority for this region. Issues of culture may present a barrier to increasing trade, although at least two companies involved in this study indicated that they were establishing closer links and one had entered into a venture with St. Pierre and French companies to increase its prospects for the future. Customs and Excise control at Fortune was mentioned by two companies as presenting some difficulties, mainly in relation to the resolving of import and GST duties on smaller amounts of goods. It is anticipated that within a year there will be an oil exploration program started from St. Pierre. This will provide additional opportunities for the region and there is a need to identify these opportunities and ensure that local companies are prepared to take advantage of these when they arise.

5.0 Observations

This report has presented the export experiences and activities of almost 80 Newfoundland and Labrador SMEs together with their opinions and comments on the challenges that they face in developing or growing exports and the role that governments play, or should play in providing assistance. The perspectives of government officials and representatives of industry associations involved in trade and business development were also included in this analysis. In concluding this report, the following summary observations are offered by the study team based on the information collected and presented.

SMEs in the Province have historically relied on local markets which are small and limited in the range of goods and services encompassed. The emergence of freer trade and globalization of markets as well as the transition from resource-based to knowledge-based goods and services means that the status quo is not a viable option for many Newfoundland SMEs - they must successfully adapt to the challenges and opportunities of the global market marketplace or risk not surviving. One small manufacturer just beginning to export noted that it is already competing with national and international competitors in its home market, here in Newfoundland. The high growth rate in export activity demonstrated by Newfoundland and Labrador SMEs over the past seven years is perhaps an indication that at least some SMEs recognize and are adjusting to this new reality.

The growth in exports by SMEs across virtually all sectors in recent years has in large part been based on market opportunities in the US. These opportunities have been driven by a strong US economy and associated strong demand, access and favourable tariff structures under NAFTA, as well as a very favourable currency exchange rate. There is a risk, however, that these opportunities may diminish or even disappear in the future if demand wanes or exchange rates become less favourable. A few SMEs have realized this risk and are using their current export advantages to build long term relationships and markets in the US. For other SMEs, the risk is that a significant negative shift in their competitive position precipitated by economic circumstances may not only close export opportunities but create new threats in their local or regional markets for which they are not prepared.

SMEs in the Province have become involved in exporting through a variety of routes. Some have made a deliberate transition from serving local or regional markets, others started out with their primary focus on export markets, while still others have begun exporting through chance opportunities. No one approach was observed to be more or less successful or problematic as the study team observed examples of both highly successful exporters as well as struggling exporters in all categories.

SMEs in Newfoundland and Labrador tend to be smaller than their counterparts in the rest of the country and to have less human resources, breadth of skills, market base and financial resources from which to develop and grow exports. The transition from a small company to a larger company able to meet export growth opportunities is, therefore, a challenge. SMEs that, from their inception, have focused on exports may generally be more aware of export market demands but face a different challenge in trying to simultaneously develop production capacity and markets .

Many SMEs in Newfoundland and Labrador are founded on the knowledge, skills and interests of the owner(s) which tend to be strong in producing goods and/or services but much weaker in business management and marketing, particularly in developing export markets. Most SMEs

cannot initially afford the cost of a dedicated marketing person and many owners feel the need to assume the marketing role in order to better understand the marketplace and manage the business. They do not, however, have the requisite knowledge and experience and frequently underestimate the time, effort, and funds required to achieve export success. They are consequently prone to get frustrated, make mistakes, and run out of funds. Business and export market planning is generally more sophisticated and current within established and experienced companies, although few companies develop and maintain formal business or marketing plans, placing emphasis on strategic planning rather than documents.

Smaller companies, particularly start-up companies tend to have the greatest needs for assistance in developing exports. Often these needs are intertwined with basic business development needs. A mentoring program, whereby people knowledgeable and experienced in exporting, preferably with an understanding of the particular industry or business, would provide advice directly to SMEs, is perceived by many owners as an effective solution to this problem. Such a program would need to identify and enlist mentors with appropriate skills and experience, provide an appropriate method and level of interaction with companies in all regions, and ensure that the cost to the SME is affordable.

Location and transportation pose significant cost and logistics impediments to exporting for companies marketing heavy or high volume goods, particularly in rural areas. Some SMEs have been able to mitigate or compensate for high transportation costs through low cost back haul capacity, lower wages, and - for those companies exporting to the US - the very favourable currency exchange differential. Rising fuel costs remain a concern for the transportation of exported goods. The frequency and reliability of truck and container transportation are problematic in terms of SMEs responding to orders in acceptable time frames. The causes for this range from weather to limited availability of services to non-professional attitudes. For some SMEs, transportation is impeding value added processing in the Province and expansion of capacity. The lack of direct shipping, notably to Europe and the Carribean, as well as the lack of port facilities around the Province are in some instances impediments to developing export markets in these areas. The high cost of business travel is particularly onerous for potential new exporters trying to develop new contacts and places them at a disadvantage with respect to competitors in the rest of the country.

While there is exporting taking place from all areas of the Province, there are difficulties with infrastructure (transportation, communications) that make it more difficult for SMEs from Labrador and some of the remote areas of Newfoundland to export. Having stated this, there are examples of companies in remote locations that have successfully overcome these challenges and are successful exporters. In some of these regions, the emphasis is on import displacement rather than exports and the major challenges relate to business development. Companies in the Avalon

Region are often perceived by those in the rest of the Province to have better access to information, services, and decision makers despite the fact that DDDR and ACOA maintain regional offices throughout the Province.

Quality requirements of export markets pose problems for some potential exporters. Only a few of the SMEs contacted for this study have implemented formal quality assurance and control standards because they have not been required by their customers to date. Those that have implemented such standards are primarily supplying the oil and gas industry or local offices of large national or international companies which require such certification. Most SMEs are, therefore, not prepared when such standards are required by export markets. Acquiring quality assurance certification (such as ISO 9000) usually involves significant cost and a protracted process which can delay the company's entry into the market or even preclude it from opportunities. Poor quality resulting from a lack of understanding of market requirements and value considerations by personnel producing and handling goods has been observed to diminish the market value of exports.

SMEs in the Province are less able to successfully compete for capital, particularly venture capital, than SMEs in most other regions of Canada. The present demand for funds in the country far exceeds supply and, therefore, fund managers tend to focus on high return ventures in businesses and geographic areas with which they are more familiar. Local companies are inexperienced and lack the knowledge to successfully prepare themselves to seek such funds. Physical distance from the corporate headquarters of such funds, located primarily in Central Canada and the US, also creates a significant cost impediment for local companies to develop a constructive relationship leading to funding. To some degree, SMEs must also deal with a negative perception shared by the business communities in other parts of Canada, particularly Ontario, towards the credibility of companies and ventures in this Province. The Atlantic Canada Fund is seen to be risk averse and has not had a significant beneficial impact on meeting the venture capital requirements of Newfoundland SMEs. The owners and management of SMEs in the Province need to be better educated in the nature, options, process, and implications of attracting equity investment.

SMEs in the Province have not been very successful in winning contracts from CIDA or soliciting funds for export development projects through CIDA Inc. and many who were originally encouraged to develop this export route have given up after spending considerable effort and funds.

SMEs in Newfoundland and Labrador are largely unaware of the information and services available from government to assist them in developing export markets. SMEs that have availed of information and services provided by government on export development want these to be more focused and relevant to the specific needs of their business.

Government programs providing support for export development activities are the primary, if not the only, source of funds available to many SMEs in this Province. While these programs are important and valuable, SMEs have identified several issues for consideration in making them more effective:

- programs are offered by several different departments and agencies of both the Federal and Provincial Governments for a variety of business and export development activities with the result that many SMEs find it difficult to identify where to seek the assistance they need;
- program support often does not make provision for the needs of the SME over a sufficiently long period to achieve export success;
- the level of support available for unsecured activities such as export market development, commercialization, and R&D is limited and often below the requirements SMEs feel are needed to be effective;
- response times for applications is sometimes too long and may exclude the company from an opportunity for which the funds were intended;
- payback and equity ownership provisions attached to some funding may deter private investment in the company at a later stage;
- SMEs sometimes have difficulty in determining the availability, applicability, and eligibility requirements of various programs with respect to their needs;
- SMEs sometimes need assistance in co-ordinating their business and export development efforts with several government departments and agencies, some of which have line responsibilities;

Government organized and sponsored trade missions and trade shows are valuable and effective export development activities for SMEs when their focus is matched to the needs of individual companies and they are planned well in advance in order to maximize the likelihood of success. SMEs, particularly those in the early stages of exporting, would like to see such activities expanded. The value of such activities is that SMEs can have a presence at a much lower level of effort and expense than if they undertook such activities on their own. Most SMEs find a low key, working level approach similar to the model currently being employed by DITT in developing export markets in New England to be most effective. In some foreign countries, however, participation with politicians and senior officials in a trade mission is perceived as an endorsement of a company by government and may be key to progressing or concluding an export contract which has been in negotiation.

While there are wide variations in the perceived responsiveness and degree of service provided by different foreign trade posts and individual staff members, these are very useful sources of information and help for SMEs both before traveling to the country or region and while working there. More effort needs to be made to engage posts and individual staff in working with local companies in order to serve their needs more effectively.

While the observations provided above are focused on the needs and challenges faced by SMEs in Newfoundland and Labrador in developing exports, the study team also found many examples of SMEs that are effectively dealing with these issues and are exporting very successfully. The fundamental question, then, is not whether exporting is viable for SMEs in the Province but how to help those companies that are struggling with the challenges of exporting to cope and achieve success. This study describes a range needs and challenges identified by SMEs in this regard and also provides insight, in many instances, into how these might be effectively mitigated by both levels of government involved.

APPENDIX A

Summary of Participating Companies

Interview Participants

| Company | Sector | Region | Export Status |
|--------------------------------|---------------|---------|--|
| ACAN Windows | Man | Avalon | Established Exporter |
| AF Proteins | Bio | Avalon | Export Ready |
| AMI Offshore | Pet | Avalon | Established Exporter |
| ATCO Frontec Offshore | Pet | Avalon | Potential Exporter |
| Aqua Shell Processing | F&A | Central | Export Ready |
| Brookfield Dairy Group | Agr | Avalon | Established Exporter |
| Cabot Caprine Dairy | Agr | East | Export Ready |
| Cabot Leather Works | Man | East | Potential Exporter (Sales in Canada) |
| Community Resource Services | Env, Pet | Avalon | Established Exporter |
| Dark Tickle Jams | Agr | West | Established Exporter (Sales in Canada) |
| Design Management Group | Env | Central | New Exporter |
| EJE Translite Incorporated | Man | Avalon | Established Exporter |
| Exploits Oilskins Originals | Man | Avalon | New Exporter |
| Full Tilt Design Inc | Innov | Avalon | Export Ready |
| Genesis Organic Inc | Man, Env | West | Established Exporter |
| Hi Point Industries (1991) Ltd | Man, Env, Pet | Central | Established Exporter |
| Iceberg Industries Corporation | Agr, Man | Avalon | New Exporter |
| Indian Bay Frozen Foods | Agr | East | Established Exporter |
| Innova Multimedia | Innov | West | Established Exporter |
| Instrumar Ltd | Innov | Avalon | Established Exporter |
| International Granite Corp. | Min | Central | New Exporter |
| Islander Fibreglass | Man | Central | Established Exporter |
| Jamestown Lumber Company | For | East | Established Exporter |
| Lotek Marine Technologies Inc | Innov, Man | Avalon | Established Exporter |
| Mariteam Lighting | Man | Avalon | Established Exporter |
| Markland Cottage Winery | Agr, Man, Bio | Avalon | Established Exporter |
| Metal Manu-Works | Man | East | Established Exporter |
| Newfoundland Aqua Products Inc | F&A | West | New Exporter |
| North Atlantic Aquaponics | F&A | West | New exporter |
| Nova Recycling | Man, Env | West | New exporter |
| Pathix ASF Inc | Innov | Avalon | New Exporter |
| Plato Group Inc | IT | Avalon | Established exporter |
| Red Ochre Productions | Cul | Avalon | Established exporter |
| Restwell Limited | Man | Avalon | Not Exporting |
| Rink Rats | Cul | Avalon | Export Ready (Sales in Canada) |
| SCC Environmental | Env | Avalon | Established Exporter |
| Seacom Consulting Inc | Env, Pet | Avalon | Established Exporter |
| Seacraft Ltd. | Man | Central | Export Ready |
| Servco Environmental | Env | Avalon | Not Exporting |
| Sing Song Inc | Cul | Avalon | Established Exporter |
| Sutreen Hardwoods | For | West | Not Exporting |
| Terra Nova Biotech | Bio | Avalon | Established Exporter |
| Terra Nova Shoes Limited | Man | Avalon | Established Exporter |
| Welco Enterprises | For | West | Established Exporter |
| ZEDD Comm Inc | IT, Innov | Avalon | Established Exporter |

Focus Group Participants

| Company | Sector | Region | Export Status |
|---------------------------------------|---------------------|----------|----------------------|
| BPK Consultants | Innov | East | Not Exporting |
| Canadian Folding Cartons Incorporated | Man | Avalon | Established Exporter |
| Canpolar East | Innov | Avalon | Established Exporter |
| Cape Broyle Composting Inc. | Man | Avalon | Potential Exporter |
| Collaborative Network Technologies | IT | Avalon | New Exporter |
| Compusult Ltd | Innov, IT, Pet, Env | Avalon | Established Exporter |
| Continental Marble Industries Limited | Man | Avalon | Established Exporter |
| Coretec Inc. | Innov, Pet, Env | Avalon | Established Exporter |
| Emberley's Transport | Other | East | Export Ready |
| Gander Worldwide inc | Other | Central | Not Exporting |
| Grand Bank Bags | Man | East | Potential Exporter |
| Grand Bank Sea Treasurers | F&A | East | Established Exporter |
| Grenfell Handicrafts | Cul | West | Established Exporter |
| ICAN Ltd | Innov | Avalon | Established Exporter |
| Ideal Enterprises | Man | East | Established Exporter |
| Information Services Inc | Innov | Avalon | Established Exporter |
| Infotech Canada | IT | Avalon | Established Exporter |
| Labrador Craft Marketing Agency | Man | Labrador | New Exporter |
| Marineering | Innov | Avalon | Established Exporter |
| Nautical Data Inc | Innov | Avalon | Established Exporter |
| Northern Radar Systems | Innov, Pet | Avalon | Export Ready |
| Northland Associates Ltd | Env | Avalon | Established Exporter |
| Northstar Technology Inc | Innov | Avalon | Established Exporter |
| Pamzo Enterprises | Man | Central | Potential Exporter |
| Rutter Technologies | Innov | Avalon | Established Exporter |
| Stitches from Salmonier (Woof Design) | Man | Avalon | Established Exporter |
| Summerwind Forest Products | For | West | Established Exporter |
| Terry's Tents | Man | Labrador | Not Exporting |
| Tuckamore Lodge/Adventures | Cul | West | Potential Exporter |
| Uncle Sam's Butcher Shop | Agr | Labrador | Potential Exporter |
| Weil Winery | Agr | Central | Potential Exporter |
| Yates Boat Building Limited | Man | Central | New Exporter |

Other Interviews

Organization

Alliance of Manufacturers and Exporters of Newfoundland (AMEN)
Bio-East (Genesis Group)
Faculty of Business, MUN
Faculty of Business, MUN
College of the North Atlantic (CONA), Stephenville
College of the North Atlantic (CONA), Clarenville
Canada Business Service Centre (CBSC)
Canadian Heritage
Central Labrador Economic Development Corporation
Corner Brook Economic Development Corporation
Craft Council of Newfoundland and Labrador
Department of Development and Rural Renewal (DDRR), St. Anthony
Department of Development and Rural Renewal (DDRR), Corner Brook
Department of Development and Rural Renewal (DDRR), St. John's
Department of Development and Rural Renewal (DDRR)
Department of Development and Rural Renewal (DDRR), Stephenville
Department of Development and Rural Renewal (DDRR), Stephenville
Department of Development and Rural Renewal (DDRR), St. Anthony
Department of Industry, Trade, and Technology (DITT), St. John's
Export Development Corporation
Industry Canada
Industry Canada
Industry Canada
Labrador North Chamber of Commerce
Labrador North Chamber of Commerce
Long Range Economic Development Corporation
Marine Institute
Music Industry Association of Newfoundland and Labrador
Newfoundland and Labrador Association of Technology Industries (NATI)
Newfoundland Environmental Industries Association (NEIA)
Newfoundland Environmental Industries Association (NEIA)
Newfoundland Ocean Industries Association (NOIA)
Newfoundland Ocean Industries Association (NOIA)
Newfoundland and Labrador Chamber of Mineral Resources
Newfoundland and Labrador Film Development Corporation
Nordic Economic Development Corporation
Schooner Economic Development Corporation
Genesis Group, MUN
St. Barbe-Straits IAS Committee

Contact

Sean McCarthy
Margaret Miller
Gary Gorman
Bob Richards
Chris Bowers
Steve Quinton
Ed Coady
Ann Anderson
Carol Best
Jeff Ingram
Anne Manual
Ken Carter
Rita Malone
Terry Johnstone
Larry Guinchard
Grant Dicks
Mark Felix
Todd May
Paul Morris
Darryl Spurrell
Antony McLevey
Brian McShane
Patricia Williams
Perry Trimper
Davina Mugford
Tom Hatchings
Nigel Allen
Denis Parker
Jeff Tulk
Nancy Griffiths
Charlie Riggs
Deidre Robinson Greene
Phil Bentley
Bob Kelly
Chris Bonnell
Travis Dillard
Donna Power
Dave King
David Simms

APPENDIX B

Interview Guide

SMEs Export Needs and Challenges Project Company Case Studies Interview Guide

These case studies will explore:

- *considerations of individual companies in deciding to export,*
- *their level of preparedness, and*
- *their consequent experiences,*

for the purpose of identifying factors contributing to their *success or failure.*

This information will be analyzed against existing government export development assistance policies and programs to determine:

- *how they can be made more effective in increasing exports from Newfoundland, and,*
- *the number of companies involved.*

The nature of the information required is, therefore, mostly qualitative. Quantitative data are generally important only to the extent that they may provide a basis for gauging the relative size or performance of a company. Statistics or details that do not contribute directly to our understanding of export issues are, therefore, irrelevant.

Because of the diverse nature of the different companies to be interviewed and differences in their levels of export experience, the approach must be flexible, enabling the interviewer to phrase the appropriate questions and to probe as necessary to extract the information we are seeking. It is appropriate, therefore, to first establish the primary information objectives that will guide the selection of questions.

"There is no set questionnaire - the issues to raise will come out through discussion, using a Guide to help direct the discussion and cover the six basic objectives established for this session.

The discussions will be presented to the Client in a written encapsulation - federal and provincial development agencies - but the study team will ensure complete confidentiality of any issue or comment that the SME does not wish to be attributed to it. The study team will not be giving its field notes or tapes (if applicable) of discussion to anyone."

Objective #1: To understand the nature of the company's business.

The starting point for this exploration must be to achieve a good understanding of the company's business in terms of:

- *the demand it is intended to meet,*
- *its products and/or services,*

- *its markets and their characteristics,*
- *business drivers,*
- *competition,*
- *potential for growth, and*
- *critical factors.*

Please describe your company and its evolution.

This question will solicit:

- *Company history, details/background*
- *Street address:*
- *Mailing address:*
- *Telephone:*
- *Contact & Position:*
- *Executive/Management (#, type & operating philosophy)*
- *Year Established:*

- *Type of company: Inc/Sole prop/Public/Partnership/Coop*

- *Main areas of Business Specialty*

- *Nature of Business: (Descriptive)*

- *# of employees (Range):*

This information is important to establish the basis for the viability of the company irrespective of exporting activity.

It is also required to differentiate between businesses in different sectors and associated export challenges.

Objective #2: *To determine the success of the business before exporting or exclusive of exporting.*

Recognizing that most companies set up to serve a domestic (NF) market, although this is not always the case - some companies may require an immediate export market in order to become viable; some companies may orient towards exporting before (or rather than) selling domestically.

Being a successful exporter first requires that the company demonstrate its ability to successfully sustain and grow the business in its local market. This can be gauged by parameters such as:

- sales/revenues
- growth,
- staffing levels, and
- new investment.

Companies may be reluctant to reveal sales/revenues data, but it would be useful to gain an estimate of this (i.e. to nearest \$million or within defined ranges).

It is also important to look at the underlying reasons for the apparent growth or lack of it by considering strengths, weaknesses, opportunities and threats (SWOT) at that time.

When the company was set up, what were its:

- *Strengths*
- *Weaknesses*
- *Opportunities*
- *Threats*

The company might be asked for its views on these factors but may not be aware of issues or may try to conceal known problems for its own reasons. It may be necessary, therefore, to probe into factors as the depth of the company's organization in terms of skills and experience in areas such as management and marketing.

Other factors might be:

- *whether the company has a business and/or marketing plan,*
- *when it was prepared,*
- *how it is being followed and*
- *whether it is reviewed and updated regularly.*

Specific activities under these plans or otherwise such as product and service diversification identified as contributing to success or failure should be highlighted.

Objective #3: To determine reasons for the company considering or embarking on exporting.

Presumably, a company becomes involved in exporting because it perceives an opportunity for new or expanded business suited to its skills and experience. It is important, therefore, that we explore this process to:

- *understand the considerations and the soundness of their decision.*

This should encompass a:

- *discussion of the perceived business opportunity and its compatibility with the company's activities.*

If company is not exporting, or not considering exporting, need to probe the reasons.

Objective #4: To ascertain the readiness of the company prior to committing to exporting.

Presumably, the more knowledgeable and better prepared a company is, the greater is its probability of success in entering export markets. We must determine, therefore:

- *what the company has done to improve its knowledge and preparedness, what level of effort and resources has been committed, and*
- *whether these are sufficient.*

Market knowledge issues may encompass market characteristics including

- *location, size,*
- *customer requirements,*
- *regulatory requirements,*
- *import regulations and associated costs,*
- *competition and their strategic advantages,*
- *distribution channels, and*
- *transportation.*

Export Preparedness issues may include :

- *consideration of capacity to meet export markets,*
- *sales organization,*
- *distribution arrangements.*
- *what intelligence was available and*
- *how did the company do its research.*
- *how did the company establish country contacts, determine the extent of the market and availability of in-country support, such as distribution networks etc.*

Most importantly is:

- *whether the company has developed a comprehensive business plan which has identified a viable and hopefully an optimal approach to exporting.*

However, previous studies have shown that while a Business Plan/Strategy can help a company in its exporting activities, this is not absolutely vital. The Knowledge Based industries often claim that Business Plans/Strategies are constraining and operate on a "Opportunity Arising" basis.

Need to explore the Business/Marketing Plan/Strategy if the company has one and, if it does not have one, why not?

Objective #5: *To explore in depth with exporting companies the process employed in establishing their export venture, their experiences, and the results (success).*

This is where we should get into the meat of the interview identifying specific problems and success factors. The information should include:

- *a comprehensive description of the exporting venture in terms of*
- *what they are exporting,*
- *where they are exporting,*
- *for how long,*
- *how it is being done and*
- *the considerations / decisions which led them to the current situation.*

It should also examine the lessons learned, i.e.

- *their expectations of the company at the outset in comparison with their actual experience and*
- *how the company met consequent challenges.*

This should:

- *distinguish between internal problems and external problems, and,*
- *identify the consequences.*

The things that they did particularly well should also be highlighted. Perhaps, this questioning could be framed in terms of Strengths, Weaknesses, Opportunities, and Threats (SWOT) particular to its export venture should also be explored.

From the SWOT analysis done earlier in looking at the company's growth before it started exporting, what are the company's:

- *Strengths*
- *Weaknesses*
- *Opportunities*
- *Threats*

in terms of current exporting activities.

Objective #6: To determine the use and effectiveness of government export development assistance and programs.

It is important to determine whether:

- *the company was aware of export development assistance programs available from government,*
- *the extent to which it availed of any of these, and,*
- *their effectiveness.*

This should encompass:

- *details of the nature of their needs,*
- *how the company determined these, and ,*
- *at what stage in considering or developing their export venture.*

It should also describe the program / assistance accessed, e.g.

- *skills development,*
- *export counseling,*
- *market entry support (missions, market intelligence)*
- *export assistance, and*
- *in-market assistance,*
- *the level of support provided, and*
- *the process involved.*

In the opinion of the company, do these programs cover the full range of the export spectrum, from initial concept to active exporting, or are there gaps and were the programs effective?

Anecdotal experiences, both positive and negative should be recorded as well as suggested improvements.

It is also important to explore:

- *the company's expectations of its role and responsibilities in developing its export business, versus,*
- *the supporting role played by government in order to put this information in context.*

In other words, are its expectations reasonable and achievable?

Outside of addressing the above objectives, the company should be offered an opportunity to raise any other issues that it feels are important such as

- *assets or barriers to exporting,*
- *sector issues,*

- *geographic issues, and,*
- *infrastructure issues within their particular region.*

