The House of Commons Standing Committee on International Trade

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Introduction:

The focus of the following is on SME with limited resources.

I am a Certified International Trade Professional with 25 years experience in over 20 countries.

Will address two questions: what could / should government offer, and what can SME do to leverage FTA agreements in general.

To establish a baseline it is first necessary to establish the profile of exporting SME.

SME Export Profiles:

Research and experience suggests that perhaps 20% of SME firms have products / services suitable for export, and further that SME exporters generally (with the expected exceptions) fit into 3 broad categories:

Experienced Exporters:

Successful, experienced exporters who understand how to operate and generally do not involve Government in anything, except the expectation they maintain a favourable business environment.

Business development is handled internally, and short term new market entry success rates of over 60% are common.

Often started exporting goods, and are still going strong.

Many (how many?) operate via Foreign Affiliates, and although hard data on sales is lacking, EDC publications do estimate the level of Foreign Affiliate activities.

Well Prepared and Knowledgeable SME:

SME who have undertaken extensive research into prospective target markets, have well developed Business Plans that include at minimum an Operations Plan, Marketing Plan, Risk Management Plan, Organizational Development Plan, a Competitor analysis and have the necessary languages in house.

Once they become established they quickly move into the Experienced Exporters class and fall off the radar.

These firms generally exhibit many of the following:

- Majority require establishing a long term relationship with suppliers and clients, and become part of the local supply chain
- By default, the approach of the successful firms mirrors that of the successful exporters described above.
- Tight focus: either limit their efforts to one or two countries, or sell to a few multinational customers regardless of location.
- Agile: move too fast to wait to apply for government assistance, and rarely qualify for any government trade funding.
- Operate on the premise that most of the world has already transitioned to integrated, relational based supply chains, that are effective even in protectionist countries.
- Combination of in house expertise with outsourced subject matter experts.

Utilization of Government Programs:

Our experience on over 100 international business development projects, is that only one project qualified for trade assistance funding (~$1200), indicating a major gap between the demonstrated need by SME exporters and the version of reality supported by Government incentives.

Success rates for achieving significant revenue in the 6-12 months after the first visit for well prepared firms generally exceeds 50%, although some firms achieved rates of over 70%.

The Rest:

This cohort is huge, has the greatest need, and uses the most government services.

The only common denominator is they are all early in the export process, and all share the same basic needs at this point, with no regard to the actual industry or sector they are in.

Getting Started Assistance Required:

- Generally not - yet - well prepared with respect to the suitability of their products for export.
- Some have export ready products but need management advice on how to pivot from domestic to international markets.
- Others are trying to determine if their products / services can be competitively exported.

Level of Preparation:

- Few have prepared comprehensive strategic business plans that address the operating environment, legal particularly contract and liability laws, tax regulations, risk management, or industry specific issues such as phytosanitary, packaging, labelling, testing, etc. (and no a 10 to 15 page dream sheet is not enough)
- Fewer still have conducted an organizational analysis to determine what they will need to support the export initiative if / when it takes off.
- All would benefit if introduced to the same proven low cost, low risk methods to reliably and rapidly enter markets as used by the Experienced Exporters (don't reinvent the wheel).

Sources of Information:

- Rely on trade missions and trade shows to get market info, when faster, easier and far less expensive methods exist.
- Generally have an over dependence on Government as their primary and often only source of international information.
- Strong reluctance to pay for quality consulting services – would rather get it for free from Global Affairs.
- Frequently observed to get right answers - but are not asking the right questions.

"Push" Export vs "Pull" Export Drivers:

Lessons learned from over a decade of effort by senior trade development professionals, combined with research that included trade mission / show follow up, interviews with SME exporters, and extensive conversations with foreign government trade development officials revealed a critical gap in export market entry:

- As noted above, new Canada's SME exporters predominately rely on the traditional "push" export approach,

but

- the vast majority of international buyers, and most of Canada's international competitors transitioned to a "pull" procurement approach many years ago, and that puts buyers into the drivers seat.

A clear example of the power of the buyer (pull) vs the exporter (push) is a Latin American startup importer that easily identified and qualified suppliers and signed procurement and services agreements with over 30 providers in 14 countries (pull) in under 120 days. Over the next 2 years they grew into a multi-million dollar firm selling mainly to Canadian subsidiaries, yet only one Canadian exporter reached out to them (push) to carry their product. At 30:1, that ratio clearly shows who has the power in local markets, and only subject matter expert consultants can assist SME manage in this area.

Transition to Services and Services Intensive High Value Added Goods (Hybrid) :

The "what" is exported has changed since we started in this business 25 years ago.

Prior to 1990, Canadian SME exported goods, and used "push" type export methods, usually using sales reps. The goods were sell-and-forget and did not require establishing or maintaining any relationship with the end user.

Since 2008, 50% of exports are services, and it appears simple sell-and-forget goods now account for less than 20% of all exports.

The balance (~30%) consist of high value added goods exports containing a large services and/or IP component and demands a strong relationship with the buyer. For a lack of a better term, we call these hybrid as they are neither pure goods nor pure services.

The migration to services and value added hybrid goods has resulted in two major changes:

1) Successful exporters become part of the local supply chain, then pull exports from Canada.

Put simply, to offer services or become part of the supply chain implies the SME perform "work" in the target country. That means they must have the corporate structure to sign contracts, open bank accounts, pay taxes, import / export, buy insurance, and obtain work visas. FTA do not facilitate any of these activities.

EDC reports demonstrate that Integrated / Integrative Supply Chain Management, usually requiring a Foreign Affiliate to "pull" exports, is both much more effective and in wider use than trying to "push" exports over the fence from Canada.

2) Perhaps the biggest change is that in order to export services, it is people and not goods that must be moved. The ability to move people with the knowledge based IP in their heads fast and easily is crucial to success.

Appendix 1603 provides guidance as to what labour can be moved within pretty much every FTA Canada has.

Historically, clients / customers would facilitate the necessary visas, but while that model is relatively common with some multinationals, it is rapidly falling out of favour with SME clients.

Overall labour mobility is facing rapidly increasing restrictions everywhere, most notably the USA as the recent NAFTA changes demonstrated.

What Could / Should Government Offer:

What is immediately clear is the common practice of offering one-size-fits-all trade missions or advisory services does not address exporter needs.

Focus on expanding existing FTA particularly in gaining access for labour mobility, and creating better operating conditions for SME firms offering services and hybrid goods.

Make more use of the established professional associations such as The Forum for International Trade Training (FITT) that offers excellent resources, courses and workshops that can provide the necessary toolkit for potential exporters. FITT has established a network of qualified Certified International Trade Professionals (CITP) who can act as a trusted advisor to SME exporters.

Metrics & KPI's:

Many SME have requested data from us on the 6 and 12 month success rate and results of trade missions in order to make informed decisions.

Many attend, but few announce success (other than staged photo ops).

Our polling has found on occasion that dozens may have attended yet none we talked to were happy with the results.

So – where are the stats? They can be sterilized for confidentiality, so please don't trot that excuse out again.

Develop Inclusive Collaborative Approach With Private Sector Consultants

There are two mutually exclusive tracks for SME seeking export support: either go with "free" government services, or engage private sector consultants.

The lack of inclusive and collaborative approach that provides an integrated service to potential SME exporters may be a contributing factor as to why Canadian SME do not compare well to their peers. German SME export over 20% of their output and USA firms over 30%. The best data we found suggests that Canadian SME export less than 5% of what they produce.

As mentioned, only one in 100 projects qualified for government funding assistance. In other words, if the Government helped just one and private consultants the other 99, does it not suggest that it would be more productive if the private sector trade and business development consultants were included in a collaborative effort?

One item would be to eliminate the trade support assistance restrictions that exclude funding to consultants for international business development.

Free Trade Agreements: Limited Value for Majority of SME

Exporters must rely either on FTA, or develop effective work arounds that usually involve starting a Foreign Affiliate. It is no coincidence that many of the biggest export success stories use Foreign Affiliates, and do not rely on FTA.

FTA can be good to very good for exports of simple goods, and can provide excellent support in general operating conditions, however alternate low risk, low cost methods to export services and hybrid goods usually function better.

While some Canadian FTA do make mention of services, in practice none promote or facilitate services exports for the majority of SME firms, and as EDC reports have shown, Foreign Affiliates provide an effective alternative with or without an underlying FTA.

Our own experience setting up new businesses in 5 countries with FTA found that the relative benefits provided by the FTA were not significantly better than when setting up new businesses in non-FTA countries. Becoming local always lowers costs and risk more than FTA do.

Finally, trade deals do not address the issue of restrictive trade practices whereas Foreign Affiliates do provide effective work arounds. For example, many countries sharply restrict doing business with strategic industries, Governments and State Owned Enterprises exclusively to registered local / regional suppliers, and none of our FTA provide effective access under these conditions.

My Wish List:

Expand trade and tax agreements to countries such as Brazil, whose firms have invested heavily in Canada and own large sectors of industry (mining, cement, meat packing - even Tim Horton's), but where it is still difficult for Canadian firms to break into.

Follow the example of Mexico in developing a comprehensive network of FTA. Mexico has FTA with 45 countries, is integrated into 9 Lat Am countries via ALADI, and enjoys preferential access when it exports over 3 million cars, plus software, electronics and manufactured goods world wide. Canada has no facilitated access to most of these counties, but Canadian Foreign Affiliates operating in Mexico do. Why not level the playing field?