



**THE TOP 3 CONSIDERATIONS FOR BUILDING SUSTAINABLE AND SCALABLE BUSINESS GROWTH IN 2017 (AND BEYOND)**

## INTRODUCTION

A new year brings reflection, new goals—and new plans. As 2017 gets underway, many Canadian manufacturing leaders find themselves refocusing their efforts on business growth. The newly published [2017 Manufacturers' Outlook Report](#) (produced by PLANT Magazine), which surveyed over 500 leading manufacturing executives across Canada, indicates that growth remains the critical emphasis for Canadian manufacturers in the year ahead.

Recent world events such as Brexit, the U.S. election and uncertain near-future trade agreements, a weak Canadian dollar, declining oil prices, and global economic instability, have all resulted in an increased level of cautious optimism, regarding the future (both short and long-term) of the growth potential for Canadian manufacturing.

With the increased volatility affecting global markets, it has never been more critical for Canadian manufacturers to build well-established plans for business growth—with a keen eye towards ongoing sustainability and scalability for success.

Three top performance areas for business executives to pay close attention to in 2017, when planning for successful growth, include:

- **Expansion into New Markets:** Canadian manufacturers have a tremendous opportunity to expand into new and emerging markets to bolster sales. Canadian businesses should plan effectively to export (*expand*) into new foreign markets, to alleviate and offset potential protectionist policies that may be seen from two major world markets, the U.S. and the U.K.
- **Cyber Security:** Canadian businesses must increase security measures. Effective safety and protection of internal controls and information have never been more critical. We have witnessed detrimental security and data breaches on the world stage this past year, with the U.S. election and other significant global events. If this has taught us anything, it is that cyber hackers are determined—and more often than not, successful, in the face of poor security controls or unregulated procedures to gain access to your data. No one should assume they are immune to the risk and should be prepared to face these threats.
- **The Changing Face of “Connected” Technologies:** We are locked in a world of technology and connected devices. Increased global competition and challenging market conditions mean that manufacturing companies need to find new business efficiencies within their operations—if they are going to remain competitive and profitable. An obvious opportunity is the Industrial Internet of Things (IIoT), which connects plant machinery and data. This data can enable companies to pick up on inefficiencies and problems sooner, saving time and money and supporting business intelligence efforts. In manufacturing specifically, IIoT holds great potential for quality control, sustainable and green practices, supply chain traceability and overall supply chain efficiency.

## PERFORMANCE AREA #1

## EXPANSION INTO NEW MARKETS



To accelerate revenue growth, today's Canadian manufacturers need to sharpen their focus on expanding their businesses outside of Canada—into new markets. Moreover, the quality of goods that Canadian manufacturers produce continues to be viewed very highly—not just in North America but throughout the world, which bodes well for expansion efforts.

Having a dedicated and established base in Canada is reason enough to develop a strategy for expansion. It speaks to strength and stability and gives your company a foundation to build upon—and grow.

### **DO YOU HAVE THE RIGHT EXPANSION STRATEGY (OR ANY STRATEGY AT ALL)?**

Your expansion plan will succeed or fail based on how well-established your research is. At minimum, you should identify:

- The initial customer base you plan to target in your new geographic region(s)
- The regional differences between your current market and your expansion market, that will likely affect your company's production capacity
- Product differentiators in the new market (competitive analysis)

## PERFORMANCE AREA #1

## EXPANSION INTO NEW MARKETS

### WHAT ARE SOME BUSINESS CHALLENGES WHEN LOOKING TO ENTER NEW MARKETS?

As a Canadian business considering expansion into new markets, there is no shortage of logistical issues to consider and prepare for—everything from accounting and tax planning to inventory and order fulfillment. There are certain critical factors to be made aware of before entering any new market. Being informed and prepared can help save you time and money.

Common considerations include:

-  Will your business need to complete an overseas tax return?
-  What tariff codes should you include on commercial invoices?
-  What documentation is required for selling into new markets?
-  What sales tax should you be charging?
-  What is your plan to deal with fluctuating exchange rates?

In addition to being well-versed in the regulations of any new markets, businesses may also encounter the following challenges:

-  **Dollar fluctuation:** Determining the impact on costs and revenue when selling in multi-currency
-  **Labeling standards:** Determining the country's labeling or packaging requirements
-  **Cross-border controls:** Knowing what documentation is required
-  **Taxation:** Knowing how much tax to charge and the tax filing requirements
-  **Additional costs:** Costs associated for launching in a new market
-  **Country of origin:** Knowing the differing rules of origin under various national laws and international treaties
-  **Financial risk of international transactions:** Collecting monies owed
-  **Market research:** Additional market research required for new markets and a concrete strategy
-  **Protectionist policies:** Tariffs placed on products that do not originate in the country you are exporting to

## PERFORMANCE AREA #1

## EXPANSION INTO NEW MARKETS



### DO YOU HAVE THE RIGHT RESOURCES?

Canadian manufacturers should take the following key factors into account to assess their capabilities, when looking to expand into new markets:



**Capacity:** When entering into a new market, manufacturers must take into account the possible larger size and scope of the marketplace, in order to safeguard capacity requirements. It is critical that business leaders consider the increase in market size, so they can plan to meet the growth in market demand, as well as, continue to maintain production levels for their existing domestic market. It's common for organizations looking to expand their businesses, to start testing smaller markets first—in order to ensure they can meet growing production demands. This strategy also has the added benefit of evaluating a test market's appetite for a product—in a controlled manner.



**Resources:** Increased market size requires more raw materials and labor to manage the increased production output. Manufacturers should assess whether their existing supply chain can meet the expected increase in demand for raw materials—with a keen eye on increasing flexibility, response times, and delivery performance.



**Management:** Executive leadership must be both available and engaged to drive the expansion process through a focus on innovation. This includes hiring the right talent, and establishing the appropriate processes needed, to make growth efforts a success. Having the right talent in the "right" place is critical for success with any expansion plan. Employee buy-in at every level, from the "top floor" to the shop floor, is also critical in the path to success when entering a new market.

## PERFORMANCE AREA #1

## EXPANSION INTO NEW MARKETS

### POSSIBLE EXPANSION STRATEGIES FOR CANADIANS

The most obvious choice for Canadian expansion is to the U.S. The United States and Canada have long enjoyed a unique and symbiotic relationship. Canada's rapport with its largest neighbor to the south has been built on a solid, historic foundation of proximity, accessibility, cultural and language familiarity, and lucrative trade benefits due to flexible borders. Canada is the United States' largest trade partner, and the economic climate between the two countries is robust and expanding. It therefore seems like a natural fit for Canadian manufacturers to look to the U.S. for expanding their revenue growth—beyond Canadian borders.

The recent U.S. election and any near-future outcomes with trade agreements may change the landscape in the ensuing years, but that is still to be determined. The long-standing trade relationship between the U.S. and Canada, the strength of the American dollar, and the sheer size of the U.S. market are reasons enough for Canadian manufacturers to size-up their neighbors to the south, as their most obvious (and lucrative) export opportunity.

[Export Development Canada](#) (EDC) states that the U.S. continues to be a strong choice as the largest export market for Canadian manufacturers.

Expansion opportunities for growth potential include:

- **Direct selling:** Sell direct to American end-users; whether a company, government or individual, without a presence in the U.S. Possible direct selling scenarios include selling online, catalogue sales, direct mail, and tradeshow.
- **Establish a U.S. presence:** Open a U.S. branch of your company or establish a separate U.S. subsidiary. This strategy typically works best for large companies with access to capital.
- **Sell through intermediaries:** Sell your product without your own sales force and instead use distributors, sales reps and agents located in the U.S.
- **Partnerships and acquisitions:** Form a partnership with an American company to operate in a particular U.S. market or acquire a U.S. firm. This strategy can include licensing deals, franchising opportunities, and joint ventures.

## PERFORMANCE AREA #2

## CYBER SECURITY



Cyber security captured the attention of many people in 2016, with notable hack attacks during the U.S. election and other significant world events.

While Internet connectivity is essential for conducting business in today's world, manufacturers should realize that, regardless of their size, all companies with an Internet connection are vulnerable to the risk of a potential security threat.

So what are the risks and what can you do to prevent them?

Although we would like to believe that manufacturing companies take their cyber security as seriously as any other breach (on-site in their plant location, for example), the results from the Manufacturers' Outlook Report indicate otherwise.

**PERFORMANCE AREA #2**

**CYBER SECURITY**



**LEVEL OF PREPAREDNESS AGAINST CYBER SECURITY EVENTS**

*\*results tabulated from over 500 responses in survey*

	Very prepared	Preparation underway	Not prepared
Data breach or loss of proprietary data	53%	33%	14%
Data encryption or ransom of operational/control, financial information, management or communications systems	51%	29%	20%
Phishing attacks	54%	27%	18%
Breach through a third-party vendor	43%	33%	24%
Targeted external cyber attacks	44%	29%	26%

**PERFORMANCE AREA #2**

**CYBER SECURITY**



**CYBER PROTECTION MEASURES CANADIAN MANUFACTURERS CURRENTLY EMPLOY**

Security infrastructure	60%
Data privacy controls	51%
A cyber security strategy	27%
Cyber security risk assessment/review	26%
Crisis management and/or business continuity plan	23%
A cyber breach response plan	14%
None of the above	17%

Cyber criminals continue to adopt more sophisticated techniques to breach your secure information. It is imperative to create a formal, well-established security strategy that will protect your company from detrimental outcomes, and safeguard against any future, unforeseen risks.

## PERFORMANCE AREA #2

## CYBER SECURITY



### PROTECT YOUR NETWORK ENVIRONMENT



#### Prepare your business

- Identify potential security and breach vulnerabilities
- Establish a well-documented cyber security plan
- Ensure all compliance obligations are met
- Vet new partnerships with third-parties and vendors with due diligence



#### Protect your business

- Establish well-regulated cyber governance and controls
- Identify and repair system vulnerabilities
- Safeguard cloud storage security
- Design processes to minimize security risks



#### React accordingly

- Adapt to changing security regulations for data privacy
- Create a well-established response plan to cyber attacks
- Develop a plan for system or data breaches
- Implement a plan for third-party breaches that may expose customer data
- Develop a recovery strategy for worms, malware or Trojans that take control of employee computers



#### Change the mindset

- Raise awareness of potential cyber threats throughout your organization
- Demonstrate how cyber security measures can have a positive ROI on revenue
- Instill cyber security awareness methods within your corporate culture

## PERFORMANCE AREA #3

## THE CHANGING FACE OF “CONNECTED” TECHNOLOGIES



The Industrial Internet of Things (IIoT) is the next wave of innovation impacting the way the world connects machines and optimizes data. It covers all aspects of a manufacturing business—upstream and downstream, blurring traditional boundaries between plant operations, supply chain performance, and product and demand management. IIoT is ushering in a new era of vastly improved productivity and efficiency in the world of supply chain and production processes.

So why is it necessary to find new efficiencies? According to the Manufacturers' Outlook Report, Canadian business leaders feel they have ample room to grow their revenue potential and gain a competitive advantage. Results indicate:

- 55 percent of companies have room to add production volume
- 33 percent of companies are at near, or full capacity
- 12 percent of companies have excess capacity

## PERFORMANCE AREA #3

## THE CHANGING FACE OF “CONNECTED” TECHNOLOGIES



Canadian manufacturing companies are slow to take advantage of improved measures and technologies that would increase productivity.

When asked in the survey, if the business leaders make use of automatic data access, analysis and review to measure and monitor productivity:

- 30 percent report they do
- 42 percent conclude they do it manually
- 28 percent report that they don't measure,
- 61 percent won't connect the shop floor to the "top floor" over the next 12 months

When asked which advanced manufacturing technologies their companies have adopted:

- 46 percent report using CAD/CAE/CAM
- 34 percent utilize data acquisition, information and control technologies
- 27 percent utilize computerized processing, fabricating and assembly technologies
- 32 percent of companies state they don't use any of the aforementioned technologies



### **IIoT HAS ROOM TO GROW**

Clearly, the majority of Canadian manufacturers have not seen the light when it comes to IIoT. Only 6 percent are currently leveraging IIoT and 31 percent of manufacturers simply don't know where to start, according to the survey.

The business benefits of IIoT technologies include:

- **Improved supply chain visibility:** Inventory tracking ensuring on-time and accurate delivery
- **Enhanced supply chain optimization:** Communication in real-time internally and externally
- **Loss prevention:** Monitoring security of goods upstream and downstream
- **Revamped safety standards:** Enhancing insight into quality and safety standards
- **Enriched business decision-making:** Capturing information in real-time to react accordingly
- **Upgraded customer experiences:** Improving manufacturing outcomes for customers



## CONCLUSION

The world is changing, perhaps more quickly than we can keep up with. Recent world events such as Brexit, the U.S. election and uncertain near-future trade agreements, a weak Canadian dollar, declining oil prices, and global economic instability, have caused levels of cautious optimism for the future of Canadian manufacturing, when it comes to short and long-term growth potential.

The key to success is to ensure that business growth plans are developed with a keen eye towards scalability and flexibility, for sustainable long-term growth. If Canadian manufacturers can develop a successful expansion strategy, aimed at strengthening their reach beyond the Canadian market, they will have unlimited opportunity to establish themselves as sustainable global market leaders.

By focusing on three key performance areas: developing new market expansion possibilities, protecting information from security threats, and boosting productivity and efficiency by implementing “smart – connected” technologies and devices, Canadian manufacturing leaders will be well-positioned to prepare their people, processes, and technology for a competitive advantage.

