

EXPANDING TO THE U.S.: TOP STRATEGIES FOR EXPORT GROWTH—A COMPLETE GUIDE FOR CANADIAN MANUFACTURERS

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SUMMARY



According to the Canadian Manufacturers & Exporters (CME), Canada's largest trade and industry association, only 4 percent of Canadian companies are currently exporting. Moreover, exports to the U.S. are on a steady decline due to concerted efforts aimed at diversifying to emerging markets. Despite this recent decline, the U.S. continues to stand strong as the largest export market for Canadian manufacturers. Failing to implement a sound expansion strategy aimed at the U.S. market could cost Canadian manufacturers dearly.

This eBook provides an overview of how Canadian manufacturers can build a successful strategy to expand into the U.S. It is divided into three key sections:



A BRIEF OVERVIEW OF WHY CANADIAN MANUFACTURERS SHOULD CONSIDER EXPANDING TO THE U.S.



CHALLENGES, BENEFITS, AND KEY CONSIDERATIONS WHEN DEVELOPING AN EXPANSION STRATEGY



SEVEN STEPS MANUFACTURING LEADERS SHOULD UNDERTAKE WHEN CREATING A LEADING EXPORT GROWTH STRATEGY

EXPANDING TO THE U.S.: AN OVERVIEW FOR CANADIAN MANUFACTURERS



In recent years, Canadian manufacturers have begun to strengthen their focus on expanding outside of Canada as a means of driving business growth. According to the Canadian Manufacturers & Exporters (CME), 96 percent of Canadian companies do not export and only 2 percent of small and medium-sized enterprises actively export. While Canadian exports rose to 5.7 percent in 2014, many companies have long focused their export strategies on diversifying to emerging markets. This focus has come at the expense of maximizing the value of expansion efforts south of the border.

Nonetheless, according to [Export Development Canada \(EDC\)](#), the U.S. continues to stand strong as the largest export market for Canadian manufacturers (Table 1).¹ With the right strategic direction and support, Canadian manufacturers are poised to capitalize on limitless options for growth in the U.S. market.

Such options include:

- Selling over the web and fulfilling orders from Canada
- Setting up a network of sales agents and distributors across the border
- Investing in U.S. production facilities
- Establishing a presence at U.S.-based trade shows.

Canadian manufacturers have the opportunity to build on their strengths, while positioning themselves appropriately to the right customers—at the right time—with the right strategy, in order to establish themselves as sustainable market leaders.

¹ EDC, 2015, Volatile is the New Up: Global Export Forecast Fall 2015, <http://www.edc.ca/EN/Knowledge-Centre/Economic-Analysis-and-Research/Pages/global-export-forecast.aspx>

EXPANDING TO THE U.S.: AN OVERVIEW FOR CANADIAN MANUFACTURERS



Table 1: Canadian Merchandise Export Forecast by Region

Export Forecast Overview	CDN bn 2014	% Share of Total 2014	2014	Export Outlook (% Growth) 2015 (f)	2016 (f)
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DEVELOPED MARKETS

United States	376.2	76.4	12.2	-3	9
Western Europe	39.2	8.0	15.5	2	8
Japan, Oceania and Developed Asia	23.4	4.8	3.1	-6	4

EMERGING MARKETS

Latin America and Caribbean	13.4	2.7	7.4	1	5
Emerging Europe and Central Asia	3.5	0.7	-5.5	-6	5
Africa and the Middle East	8.5	1.7	18.4	5	8
Emerging Asia	28.0	5.7	-1.3	9	5
Total Goods Exports	492.1	100.0	11.0	-2	8
Total Emerging Markets	53.3	10.8	3.2	5	5
Total Developed Markets	438.8	89.2	12.0	-3	8



BENEFITS OF EXPANDING TO THE U.S.

There are several key reasons why Canadian manufacturers should consider expanding to the U.S. as part of their growth strategy, including a:



STRONG MARKET: Unlike other markets, the U.S. economy is surging. According to the International Monetary Fund, the U.S. economy is on track for its best year since 2005. The combination of a weak Canadian dollar and falling oil prices, renders the time ripe to expand efforts into the U.S.



LARGE MARKET: In addition to the increasing strength of the U.S. market as a reason to expand, is also the size of the market. As the world's largest commercial market and one of the largest manufacturing environments, successfully expanding into the U.S. will pave the path forward for sustainable profits. It may also lead to success in other export markets by virtue of a strong infrastructure that is well-primed to launch into other economies.



GROWTH MARKET: Currently, there are several sources of capital on both sides of the border to help boost expansion strategies. Additionally, as many industries are diverting operations from Canada to the U.S. and Mexico, there is an opportunity for Canadian manufacturers to continue strategic planning functions in Canada while capitalizing on growing markets in the U.S.



FAMILIAR MARKET: While the U.S. market includes diverse regions and regional needs, it is generally a more accessible and culturally familiar business environment for Canadians. Furthermore, the historical connections between the U.S. and Canada serve as a good environment to potentially build and strengthen business relationships from a political, legal, linguistic, and geographical perspective.





CHALLENGES OF EXPANDING TO THE U.S.

Despite the compelling reasons for developing an export strategy to the U.S., Canadian manufacturers either face or perceive to face several daunting challenges when it comes to expanding into the U.S., including:



RAMPANT COMPETITION:

Exporters to the U.S. must compete, not only with each other, but also with U.S. domestic suppliers, making it a daunting prospect to try and break into the U.S. market of 300 million people.



REGIONAL DIFFERENCES:

The U.S. is very much a regional market, with diverse needs, requirements, and prospects. It can be challenging to identify a proper focus when entering the U.S., as well as take stock of these differences and plan around them—especially given the number of local suppliers who are better placed to understand regional buyer behavior. Considerations include regional differences as they relate to cost and ease of transportation, warehousing, logistics, insurance challenges, exchange rates, legal and regulatory practices, and politics.



DISSIMILARITIES:

Despite the familiarity between the U.S. and Canada, there are several cross-border differences that Canadian manufacturers must take into account. The overall U.S. market is made up of many local markets with varying laws, customer service expectations, regulations, time zones, and geographical characteristics. Failure to take stock of these differences renders it difficult to capitalize on the familiarity advantage.



COMPLEX CROSS-BORDER REQUIREMENTS:

NAFTA requirements, combined with a variety of federal and state requirements, can make it challenging to build a strategy around exporting to the U.S.. Tax and incorporation challenges can be especially difficult for Canadian manufacturers who must make decisions based on how they want to invest in the opportunity to expand into the U.S., yet balance the resources they have at their disposal.



TIME, INVESTMENT AND FOCUS:

Expanding to the U.S. requires manufacturers to very clearly understand and articulate their value proposition, in order to develop a successful distribution strategy that is targeted to the U.S. market.





KEY CONSIDERATIONS FOR EXPANDING TO THE U.S.

Expanding to the U.S. provides Canadian manufacturers with significant advantages. Several key considerations come into play when it comes to setting up for a successful lean manufacturing process, including a:²



STRONG LEADERSHIP AND EMPLOYEE ENGAGEMENT:

Executive leadership must be both willing 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 expansion efforts a success.



STRONG CUSTOMER FOCUS:

In order to effectively expand into the U.S., it is important for Canadian manufacturers to be clear about their current and prospective customers' needs. By honing in on products that customers value, manufacturers can look to develop, produce, and market new products and innovations that address customer concerns—while positioning the company ahead of the competition.



STRONG SUPPLY CHAIN PROCESS:

Manufacturers often work with their supply chains on a transactional basis. Successful expansion growth strategies into the U.S. requires companies to better integrate and manage their supply chain partnerships with a keen eye on improving flexibility, response times, and delivery performance—all critical factors for success in a new market.



STRONG AND SYSTEMATIC DOCUMENTATION PROCEDURE:

Driving continuous improvement with Lean manufacturing and business processes requires a systematic procedure for documenting and transferring knowledge.



SUSTAINABLE PROCESS:

Drive customer value and keep competition at bay by developing processes aimed at reducing waste, revenue loss, and operational inefficiencies. While manufacturers should always strive to achieve sustainable processes, this step becomes particularly important when looking to expand into new and competitive markets.

² For more information on how to prepare your business for a successful expansion effort, please see The 2013 Next Generation Manufacturing Survey available at: http://www.imec.org/documents/NGM_ExecutiveSummary_2013.pdf



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



It is recommended that manufacturers should develop a seven-step approach for developing a successful expansion strategy, aimed at strengthening their reach into the U.S. market.

1. Identify a strong export strategy focus

A successful overseas expansion strategy requires strong focus at the outset—one that aligns well with the company's vision and goals. A specific, well-thought out export strategy focus reduces waste and improves efficiency—all while making it easier to ensure executive buy-in for expanding to the U.S. Specific steps to be followed include:



Document the company's vision and goals for its expansion objectives, with a specific focus on identifying what the company is planning to export and why the company is choosing to expand to the U.S. This exercise will help better identify whether exporting to the U.S. fundamentally aligns with the company's purpose, value system, and on-going work.



Create and implement systems to communicate and execute the export growth strategy, in order to get all relevant parties on the same page.



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



2. Define a clear value proposition

Once an export strategy focus has been defined, companies must construct a clear value proposition that aligns with their existing business. This includes:



Outline how your company plans to compete based on identified strengths, opportunities, and its current competitive position. Honing in on competitive differentiators enables companies to better understand whether they intend to separate themselves from competitors based on cost, quality, and/or something more unique. This step is especially important given the larger volume of competitors in the U.S. market compared to the Canadian market.



Understand the economic value you provide to your clients and its relationship to how you price your products. This is key to ensuring that your value proposition is well-aligned with your company's expansion efforts.



Identify and allocate the resources needed to be successful in your export strategy. Without proper allocation of resources, an export strategy is unlikely to succeed.



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



3. Establish an export-focused sales and channel strategy

As part of defining a clear strategy focused on exporting, manufacturers construct a viable value proposition that ultimately answers the question: why should export clients buy from you? Having a clear value proposition enables companies to define a holistic sales and channel strategy aimed at boosting expansion efforts. Steps to take include:

 **Identify an initial customer/base that fits your ideal customer within your target geography.** Detecting this group will help you to determine how to best connect with a this new market and help you build your position from there. It is important to note that clients within and across the U.S. have different needs and requirements, as well as different buying journeys and preferences. These differences will ultimately boost your strategy in terms of how best to approach clients in a manner that positions your company appropriately.

 **Establish how the differences between your U.S. and Canadian market/ customers will impact your company's production capacity.** This includes the resources required to build out this capacity as well as the logistical requirements needed to get your offerings to U.S. clients cost-effectively. This step should also help identify the key partners needed to support a sustainable and successful service and logistics strategy.



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



4. Embrace technology to refine Lean business processes

While Lean manufacturing is often seen as a cost-cutting initiative, its true value is as a capacity and growth model. By applying Lean principles to their organization, Canadian manufacturers are well-positioned to build a model that allows for growth without adding significant capital or resources specifically targeted towards expanding into the U.S. Key considerations include:



Establish a method for measuring activities in order to develop continuous improvement processes, including creating a system where relevant parties are able to examine and share the same information being reviewed.



Set key targets whereby profits from realized continuous improvement activities are reinvested back into the export growth strategy.



Identify and eliminate areas of inefficiency, revenue loss, and business inflexibility. This step helps to free up resources to increase export growth—while strengthening competitive positioning.



Leverage technology to build the appropriate business process to scale, including a focus on driving success when it comes to supply chain and inventory; manufacturing and distribution; customer sales and services; and financial and taxation analysis.



Use sophisticated Enterprise Resource Planning (ERP) solutions to implement standard processes across the company, track inventory, provide visibility into the supply chain, consolidate information, provide the ability to measure and report on key performance indicators, and highlight conditions that require attention.



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



5. Refine exchange rate strategies

Understanding exchange rate fluctuations enables manufacturers to understand how their short-term financials are impacted, as well as how their long-term competitiveness may be effected. Export growth strategies must take variability in exchange rates into account, in order to be successful.



Understand cost drivers as they relate to exchange rate instability, including other hedging options. This requires keeping a close eye on the exchange rate and understanding how these fluctuations impact your business.



Develop your company's business case based on a range of different exchange rate scenarios with an eye on costs and revenues.



Build your export strategy and develop decision points that are appropriate to your business with an eye on how to deal with identified cost drivers and hedging options.



Create a process to analyze the impact of currency changes on monthly income and balance sheets, then use the results of this analysis to strengthen your export growth strategy.

EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



6. Minimize risk factors

In addition to exchange rate fluctuations, there is a range of risks that manufacturers need to be aware of when it comes to their export growth strategies. These include credit and cash flow risks; competitor-related risks such as new market entrants, alternative products; and other importing countries; and U.S.-based regulatory risks that could impact business growth. In order to manage export risks, manufacturers need to:



Understand and communicate technical, quality, and performance expectations, in order to minimize misunderstandings and business inefficiencies.



Build appropriate counter-measures to minimize risk factors, including developing different scenarios and use-cases for how to best handle challenges as they occur.



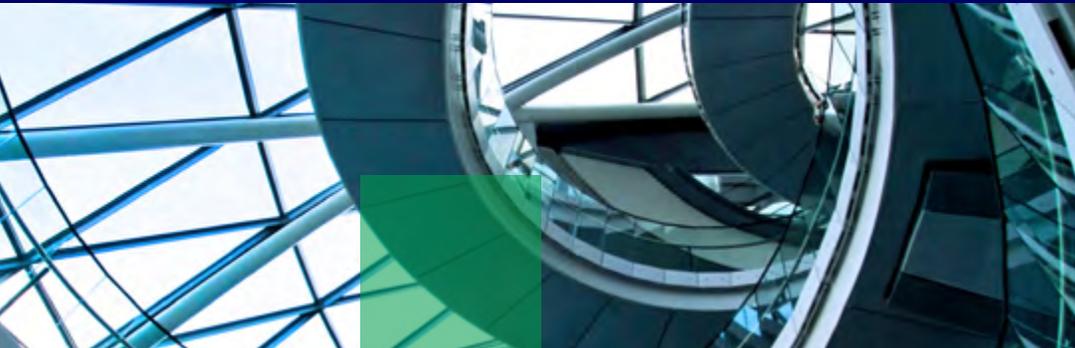
Identify potential reactions to your U.S. presence from a competitor's point of view, including your pricing confidence.



Establish continuous improvement processes to boost innovation and mitigate risks.



EXPANDING TO THE U.S.: DEVELOP A LEADING STRATEGY



7. Establish goals, measure results

Monitoring the progress of your export growth strategy is absolutely critical to building a sustainable and successful expansion process. Specific steps of value include:



Establish baselines, in order to boost evidence-based decision-making processes. In doing so, manufacturers are better able to understand potential risks and manage them proactively.



Identify clear goals for your company's expansion goals, including determining critical success factors and a measurement process against these factors.



Create an honest feedback loop to encourage continuous improvement. Build in the flexibility to pivot, as needed, in order to ensure success.



Use results to learn from and apply lessons to existing customers, goals, markets, and further expansion opportunities.



CONCLUSION



Manufacturers are looking to expand into different markets like never before. For Canadian manufacturers in particular, the U.S. market holds the greatest potential when done right. Developing a holistic and focused export strategy for the U.S. is key to boosting business growth.

The steps and considerations outlined in this eBook are intended to provide manufacturing leaders with a general overview of why and how they can begin to think about their expansion efforts. Successful manufacturers will review their processes on a quarterly basis in order to better understand, evaluate, and address the challenges of breaking into a highly-competitive—but vastly profitable market.

ABOUT SYSPRO



SYSPRO software is an award-winning, best-of-breed Enterprise Resource Planning (ERP) software solution for cost-effective on-premise and cloud-based utilization.

Industry analysts rank SYSPRO software among the finest, best-in-class enterprise-resource planning solutions in the world. SYSPRO software's powerful features, simplicity of use, scalability, information visibility, analytic/reporting capabilities, business process and rapid deployment methodology are unmatched in its sector.

SYSPRO, formed in 1978, has earned the trust of thousands of companies globally. SYSPRO's ability to grow with its customers and its adherence to developing technology, based on the needs of customers, is why SYSPRO enjoys one of the highest customer retention rates in the industry.



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