



# Identifying Export Opportunities For Business In Your Community

by Dr. Herman Overgaard

*In Canada, every day we are bombarded by reports from the news media and it is my impression that the majority of reports are negative about this country. Yet, in my opinion, Canada is one of the greatest countries in the world in which to live, but I am amazed at how few Canadians appreciate this fact.*

Two years ago, my colleague and I attended a conference in Liverpool, England. Before the conference started, we had a half day free time, so we drove over to Chester, and had lunch with the local Rotarians so we could get a feel for the English economy first hand. However, when we identified ourselves as Canadians, the members of our table immediately swamped us with questions about Canada, and we didn't have any opportunity to enquire about the U.K. economy. To the local members of the Rotary, Canada was the land of paradise and they envied us.

Earlier this year, the O.E.C.D. (The Organization for Economic Cooperation and Development) located in Paris, published a report indicating that Canada was one of the best industrial countries in the world. A couple of months ago, the United Nations issued a report that stated that next to Japan, Canada was the best country in the world in which to live. Canada is also one of the leading countries in the world receiving foreign investment. Countries such as France, Germany, U.S.A. and Japan are all investing heavily in our country, as are many others, as demonstrated by the rapidly rising Canadian dollar.

It seems that everyone else realizes what an outstanding country Canada is



were a Third World country. We ought to be ashamed of ourselves!

## More Research Needed To Develop Finished Products

At this moment the farmers right across the country are complaining about their surplus crops such as wheat which are currently receiving relatively low prices. We grow some of the best wheat in the world, but we are competing against the United States, Argentina, France and many other countries trying to sell our raw materials on the world marketplace. But let us ask ourselves: what can we do with wheat besides manufacture bread and alcohol? Can we build roads with it? We don't know because we haven't done our homework, we haven't done sufficient

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except Canadians themselves. Here we are, living in a country that has the second largest land mass in the world, with an invigorating climate, with the second highest educated population, with the largest storehouse of resources on earth, and a country in which 95 % of the world's population would give anything to live if they were given the opportunity: and here we sit and moan and groan as though we

research. On the other hand, we have discovered how to manufacture over 200,000 products from coal - like glass curtains and drugs. Why don't we do more R&D and discover how to use wheat into finished products? As far as I can fine out, the only research Canada is doing on wheat is trying to discover how we can grow a hardier strain of wheat. The same is true of many of our other resources. For

example, in British Columbia the logs are sold to countries in the Pacific Rim who sell them back to us in the form of finished products.

I am reminded of a conference that the Government of Canada sponsored in Toronto three or four years ago on the subject of Robotics. A Japanese participant told the audience that Canadians amazed and confused him, because Canadians had such a rich storehouse of resources. Japan basically only had only three resources - people, fish and bamboo, and everything else they had to import. He said that if Japan had such a storehouse as Canada, the Japanese would be on cloud nine.

This conference participant was a former vice-president of the Mitsubishi Electric Corporation and he had recently assumed the position of President of the Japan Robot Leasing Corporation. He stated that although nine of the manufacturers in Japan are large ones, the other 98% are small companies. It was decided in Japan that if Japan were to remain as a leader in the industrial world, its manufacturers would have to have the most modern equipment available. But it was also recognized that the majority of manufacturers were too poor to purchase new equipment such as robots, so he organized the Japan Robot Leasing Corporation, raised some funds with which the Company purchased robotic equipment and leased it to small manufacturers. On checking Canada's investment in robots, he had discovered that Canadian firms to date had installed a total of 800 robots whereas Japan had 110,000 robots. Could Canadian manufacturers not get the government interested in taking similar action?

**Exports Are Of Significant Importance To Canada's Economy**

As you know, Canada is one of the world's major exporting nations. The largest exporting country is Germany, the second is the United States, followed by France, the U.K. and Italy and Canada is seventh. Canadians generally think of Japan as a major exporting nation - and it definitely is. However, most Canadians would be surprised to learn that in terms of

a country's total production, Canadian exports on a per capita basis are 50% higher than Germany's, more than twice as much as Japan's, three times as much as the U.S.A.'s. In other words, Canada exports over 30% of its GNP, compared to 14% from Japan and 11% from the U.S.A. On the other hand, Canada imports more goods per capita than does any other country. We love to purchase goods and services produced by foreigners. However if one reads the list of Canada's imports, one will discover many manufacturing opportunities for Canadian companies. Furthermore, the domestic market is shrinking rapidly as a result of the keen and growing competition from foreign suppliers entering the Canadian market. This competition will become even more intense after the current Uruguayan Round of GATT negotiations have been concluded.

**Importance Of Exports To The Canadian Economy**

Exports are vital to the Canadian economy. Last year 56% of everything produced in Canada was sold abroad and Canadians purchased only 44% of what Canadians produced.

Canada has an industrial capacity as well as an agricultural, forestry, fishing and mining capacity that far exceeds the needs of the Canadian market. If we want to maintain our present standard of living or even improve it, we have to develop more foreign markets. It has been estimated that in order to find jobs for one million of Canada's unemployed, Canadian exports will have to be increased by 50%. However, while world trade last year increased 7%, Canada's share dropped from 5% to 3.5%. This emphasizes the need for Canadian manufacturers to become more globally oriented for its markets.

**Importance Of Exports To Ontario**

Exports are critical to Ontario's economy also. In 1986, for example, exports of goods and services accounted for

40% of Ontario's Provincial Income, and employed some 900,000 Ontario workers. Within Ontario's manufacturing sector, over 50% of all jobs depend on sales abroad.

Again, in 1988 more than half (52%) of all of Canada's exports and 80% of Canada's exports of fully manufactured goods came from this Province (Figure 1.). But the situation today in Ontario has changed dramatically.



As of 1991, there are some 200,000 people unemployed in Ontario. I recall that in 1981, when we had the last recession, Ontario had some 200,000 people unemployed. At that time, the Ontario Government hired a seasoned businessman to be the Deputy Minister of Industry and Trade to bridge the gap between the private sector and the public sector, and to increase employment in the Province. The man was George Macdonell, who had

been employed by Canadian general Electric for 30 years, latterly as one of its Vice-Presidents, who subsequently became President of General Steel Wares prior to joining the Ministry of Industry and Trade. Mr. Macdonell studies the situation and decided to concentrate on exports, and he and his colleagues produced an export marketing strategy which was approved by the Ontario Cabinet with a goal of five years. In less than three years the 200,000 jobs had been recovered and the Ontario economy had begun to boom. In my opinion, we need another export marketing strategy to kick-start the Ontario economy today.

### Small Firms Are Important

Without manufacturers we have no industry. So we have to encourage Canadian manufacturers to go global in seeking markets for their products. Half of the manufacturers in Canada are located in this Province. There are roughly 14,000 manufacturers in Ontario of which it is estimated that some 3,000 directly or indirectly are involved in exporting, but of which some 300 do 80% of the Province's exporting. Although not every manufacturer can export, there is considerable room for improvement. It is estimated that 90% of the manufacturers in Canada are small and medium sized firms employing 100 people or less, half of which employ 11 people or less. Many of these firms are owner-operated, and the owners are so busy taking care of their daily operations and solving their current problems that they don't have time to read the government literature offering them export assistance and to plan ahead for the future.

It is these smaller firms that form the source of possible future expansion of the Ontario economy. It is claimed that these firms have provided over sixty per cent of the new jobs in Ontario during 1990. However, the size of the firm seems to have an important bearing on export activity. In general, larger firms tend to pursue foreign opportunities more than do small or medium sized companies. Companies employing over 500 employees account for some 72% of Ontario exports, whereas firms with less than 50 employees account for less than 3% of all Ontario

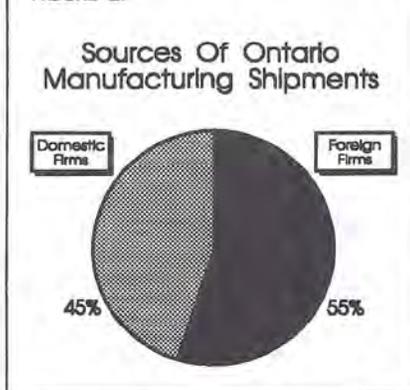
exports.

It is worth noting, however, that many small companies do successfully export their products. Some businesses with annual shipments valued at under \$1 million are aggressive exporters, while many companies with shipments over \$50 million do NOT export.

### World Product Mandating

It is also interesting to observe that foreign-controlled companies account for a very significant share of Ontario's manufacturing output. In fact, 60% of Ontario's manufacturing base is foreign owned. In response to growing international competitive pressures, some foreign-owned companies have given their Canadian subsidiaries "world product mandates." Under the world product mandating approach, the Canadian subsidiary assumes responsibility for an expanded range of functions, from product development to product and export market development for a specified set of product lines. This enables the Canadian firms to establish a world class production facility.

FIGURE 2:



Recently, I attended the annual conference of the Canadian Exporters' Association in Ottawa. The opening session included a talk by D.K. Williams, Chief Executive Officer of The Canadian General Electric, in which he spoke about Canadian International Competitiveness. During his talk he mentioned that CGE had built several new factories throughout Canada during the past year to produce products for which it had been granted world product mandates, and the invest-

ment amounted to several million of dollars and many new job opportunities. Mr. Williams stated that "----It is not possible for a branch plant, producing a wide range of products for the domestic market to be internationally or regionally competitive. ---What is needed is a transformation of branch plants into dedicated facilities that have either regional or global product mandate." The number of Ontario-based exporters would be greatly increased if more foreign-owned subsidiaries were encouraged to take advantage of international market opportunities.

Ontario produces a tremendous number of world class products but we hesitate to market them abroad aggressively. A few years ago, I was in Fiji and paid a visit to some of the supermarkets there. I noticed all kinds of Danish products there, such as butter, cheese, bacon and smoked salmon - all products which are also made in Canada - but no products from Canada.

### How To Locate Potential Exporters

In order to survive, Canadian manufacturers are going to have to lay siege to world markets. When I visit a company with a view to encourage it to try exporting there are certain measuring sticks that I use to evaluate the firm.

First is a consideration of the firm's product line. What is it? One should also examine export statistics. Is a similar product being sold abroad and where? Exports are uniformly classified by most industrial countries, so if the firm's product is being sold abroad by another country, perhaps the Canadian firm can also do it. (See U.N. Yearbook of Trade Statistics which gives imports and exports by unit value for over 100 countries). What about other Canadian Competition?

Next, determine if the firm uses a unique design. Also, what does it do for R&D? What is the company's profile, e.g. sales volume and distribution, firm's health - age of firm, age of management, assets and liabilities, company resources - plant capacity, manpower, cash flow, credit standing, after sales service? Most important of all, if a firm intends to get into exporting, the management must be committed to exporting. It is not an activity that can be switched on and off.

If the firm appears to be a promising prospect for export, put it in touch with one or the Ontario or Federal Government filed offices where a commodity officer familiar with the export field can help the firm assess its product in terms of export potential. If positive, the company can be put in touch with Canadian and Ontario Trade Commissioners who serve in approximately 100 different countries.

Canadians generally seem to have a great inferiority complex that influences a very timid marketing practice. On certain air flights into Ottawa, the airlines serve meals. On many of these flights you will find people from countries all over the world who are travelling to Canada to meet Canadian Government officials. When the meals are served, and you examine some of the items on your tray, you will notice the butter pat often has only two words on it - "butter" and "buerre" and no indication where it was manufactured. The package of Peek Frean biscuits does not give you a clue where the contents were produced. This package has only two words printed on it - "tear here." At least when Eastern Airlines was in its heyday the butter pats they served had the following words printed on them "Mildmay butter, Mildmay, Ontario." When you fly with Swissair, it seems as though everything on your foodtray is identified as being produced in Switzerland whether it is cheese, butter, chocolate or sugar. The same is true for Air Lingus, the Irish Airline. Another example is Swiss cheese products. Through aggressive marketing activities, the Swiss have convinced us that Switzerland makes the best cheeses in the world in my opinion Ontario produces some of the best cheeses in the world, but we have failed to do an adequate marketing job.

### **Exports Tend To Counterbalance Weak Domestic Markets**

When you are talking to manufacturers, I strongly recommend that you stress that exports are often a counterbalance to weak domestic markets. Export growth will come from identifying and lining the products, firms and markets with the greatest potential. When one examines the trade statistics, it is obvious that export

markets exist, we just have to pursue them. The European Common Market imports more from non-member countries than the U.S. imports, so some countries are exporting a lot to the E.C. But Canada's share is less than 3%. I believe we can do much better!

It is interesting to note that Ontario is the largest importer of U.S. goods of any country in the world. In 1988, over 80% of Ontario exports were shipped to the U.S.A. and by far the largest component was manufactured products of which some 2/3 comprised of automotive exports. Although the U.S. is and will continue to be extremely important to Ontario, the concentration on the U.S. market has to some extent meant lost opportunities in other world markets. The potential, therefore, exists for Ontario manufacturers to take greater advantage of other growing world markets. I don't know of any other country that provides its exporters with as much assistance as do the Provincial and Federal Governments in Canada. But in the final analysis export growth depends on the initiatives of the firms themselves. In our society, Governments do not export, they can only create the milieu to encourage private firms to export. I believe Canadian manufacturers will have to export in order to survive.

Small firms in Ontario seem to have a fear of anything having to do with the government. Economic Development Professionals are in a wonderful position to bridge the gap between the private sector and the public sector and provide a key link between them. They can assist small manufacturers to use government facilities and programs to identify and penetrate foreign markets for their products.

The challenges are tough, but in my opinion we have the capacity to stimulate the interest of Ontario manufacturers in seeking global markets.

*I "Raising the Bar of Excellence" Talk given to the Canadian Exporter's Association Annual Conference, Ottawa, Oct. 7, 1991.*