STRATEGIES FOR INTERNATIONAL SUCCESS
Lessons from six Canadian firms
The Institute for Competitiveness & Prosperity is an independent not-for-profit organization that deepens public understanding of macro and microeconomic factors behind Ontario’s economic progress. Research by the Institute is intended to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity. It is the aspiration of the Institute to have a significant influence in increasing Ontario and Canada’s competitiveness, productivity, and capacity for innovation. We believe this will help ensure continued success in creating good jobs, increasing prosperity, and building a higher quality of life. We seek breakthrough findings from our research and propose significant innovations in public policy to stimulate businesses, governments, and educational institutions to take action.

The Institute was formerly the research arm of the Task Force on Competitiveness, Productivity and Economic Progress established in 2001 by the Ontario Premier, and led by Roger L. Martin. The Task Force completed its work at the end of 2014. The Institute is now advised by Ontario’s Panel for Economic Growth & Prosperity, led by Tiff Macklem.

Comments on this report are welcome and should be directed to the Institute for Competitiveness & Prosperity. The Institute is funded by the Government of Ontario through the Ministry of Economic Development and Growth. The views expressed in this report are the views of the Institute’s Fellow, Paul Boothe, and his co-author, Alister Smith, both of whom are also at the Trillium Network for Advanced Manufacturing and do not necessarily represent those of the Government of Ontario or the Institute.

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Exports account for approximately 30 percent of Canada’s Gross Domestic Product. Firms that export to new markets can increase sales and profitability, pay higher wages and capture productivity-enhancing economies of scale. To understand the winning business strategies of a select group of internationally successful Canadian firms, the project team interviewed their senior executives. Firms were chosen to cover a broad range of sizes, products and services.

The six firms interviewed were:

- Cyclone Manufacturing
  Aerospace parts
- EllisDon
  Construction and project management
- IBI Group
  Architecture and urban planning
- Linamar
  Auto parts
- Magna International
  Auto parts
- TWI Foods
  Specialty food
CORE QUESTIONS WE ASKED EXECUTIVES:

1. What were the key drivers/motivators that caused you to enter foreign markets?

2. What kind of research did you do before you made your decision?

3. What was your strategy for entering foreign markets and what process did you use to develop it?

4. What resources helped you the most as you were formulating and implementing your strategy?

5. What were the key elements of your competitive advantage in the new markets?

6. Looking back, what lessons about what to do or not to do would you draw from your experience?

KEY FINDINGS:

> Internationally-successful firms are entrepreneurial and growth-oriented.

> They put customers first and in some cases, follow them abroad.

> Before entering a foreign market, they conduct considerable in-house due diligence.

> Typically, a company’s first foray outside of Canada is the United States.

> They work hard to understand cultural and regulatory differences before entering other markets.

> They choose the right people to run their foreign operations, generally relying on the human resources developed in-house in Canada.

> They view the cultural diversity of their Canadian workforce as a competitive advantage.

> They are solicitous of their own brands and work to maintain high standards abroad as well as at home.

> They believe that the Canadian brand of integrity and competence is important to their success.

RECOMMENDATIONS:

OUR CASE STUDIES PROVIDE SOME USEFUL GUIDANCE TO POLICYMAKERS. IN PARTICULAR:

> Access to other markets should remain a key objective of Canadian trade negotiators.

> The support provided by Canada’s network of missions and trade commissioners to businesses expanding into other markets is not always well utilized. Understanding how to make these services more relevant should be a priority.

> The financing and services provided by the Export Development Canada (EDC) have a demonstrated impact on the success of selected firms.
GOING GLOBAL:
Winning business strategies are needed

Canada prides itself on being a trading nation. Exports represent approximately 30 percent of its total Gross Domestic Product (GDP). Academic research has shown that exporters enjoy superior performance relative to their purely domestic competitors in productivity, research and development, and agility. So why are there not more Canadian firms taking on international markets?

SUCCESS IN INTERNATIONAL MARKETS does not come easily. The business environment can be very different from the firms’ home markets and there may be a whole new set of competitors to confront. Firms that want to succeed in international markets need a winning strategy. As such, we, Paul Boothe, Alister Smith, and Philippa French looked at the strategies used by a select group of internationally successful Canadian firms in an effort to learn from their achievements. These firms either export goods or services to foreign markets or have established successful operations abroad. In some cases, they participate in global value chains. Each is a seasoned international competitor.

We conducted structured interviews with senior decision-makers from six Canadian firms based in Ontario to learn more about their strategies. In exploring aspects of these firms’ strategies, we sought to understand:

- Their motivation for expanding internationally
- The research they conducted prior to entering a market
- The conditions under which they chose to establish new plants
- Their preparation and implementation strategies
- The critical elements to their success
- The lessons learned from their experience

The six-firm sample is not intended to be representative. Rather, the intention is to study internationally successful firms to gain a better understanding of their strategies and look for common themes that could be useful for other Canadian firms intent on expanding their operations internationally.

The firms can be divided into three groups: goods exporters, services exporters, and those with international production and sales. Firms varied in size from $25+ million to $30+ billion in sales.

The remainder of this White Paper is organized as follows. It begins with a brief review of the economic, management, and business strategy literature for guidance on previous research on these questions. Next, it examines recent empirical data on manufacturing exports and international activities pertaining to Canadian firms. Then it turns to reporting on the results of structured interviews with senior executives to get their insights on how to achieve success in international markets. Firm strategies are compared with common themes drawn out.
SUCCESSFUL EXPORTERS share certain characteristics. They are more likely to have more productive operations than their purely domestic competitors. In some cases, the reverse is also seen: exporting can increase a firm’s productivity and competitiveness. There is a difference between firms that export versus firms that only serve domestic markets. Successful exporters often have active research and development (R&D), strong management, and innovative product lines. Generally larger firms, often with previous international experience, are able to exploit niches in international markets. Sometimes they are part of a larger cluster. Specifically:

- Firms with active research and development agendas, new product lines, and the ability to specialize and take advantage of niches are more likely to successfully export. Successful manufacturers must have insights into opportunities in new markets and an understanding of evolving customer needs to guide their international expansion.

- Firms with previous international experience, and access to the information and networks that this experience provides, are more likely to successfully export. Accurate and timely information, not just on customer demand, but also on business conditions in other markets is required. This can be difficult when exporting to regions where the language and the legal and regulatory systems are significantly different than that of Canada. Trade policies that facilitate and increase access to these markets are integral, and as a result, can have a large impact on labour productivity gains.

- Firm size is also an important consideration in export success. Large firms are often better able to take risks in new markets.

- Firms that are part of a large cluster perform better in international markets. Regional cluster spillovers and the associated impact on innovation are all determinants of export performance.

Exporting has benefits for firms and for the economy. There can be significant costs and challenges when firms start to export. However, the risks come with significant benefits. Firms that export are more innovative, more productive, and more capital intensive than firms that do not. These companies tend to pay higher average salaries and invest more in R&D and training. Furthermore, higher export volumes reduce unemployment rates, increase economic growth and activity, and improve capacity utilization and productivity.

Most Canadian exporters are focused on the US market. Many firms begin by exporting to US markets. These markets are familiar and entry is perceived to be less risky and costly compared to other international markets. More than 75 percent of all Canadian exports in 2016 went to the US. However, emerging economies generated 80 percent of global real GDP growth in 2014 and will continue to be the primary drivers of growth in the global economy. Canadian firms will need to diversify beyond US markets to take advantage of the opportunities in emerging markets. Entry may also provide an opportunity to improve firm productivity.
A good business strategy is critical to international success. Management plays a key role in export success. Better-managed businesses are more likely to be successful exporters.\textsuperscript{18} Research suggests that good management makes companies more able to export, more profitable in all export activity, better able to produce high quality goods, and more likely to have more skilled workers.\textsuperscript{19} Poor management practices, conversely, may impede international expansion and growth.\textsuperscript{20}

A good business strategy is about achieving competitive advantage. Business strategy can be thought of as an “integrated set of choices that uniquely positions the firm in its industry to create a sustainable advantage and superior value relative to the competition.”\textsuperscript{21} A firm achieves competitive advantage by choosing activities that can deliver unique value. Strategy is about choice—doing some things while not doing others.

A company can only outperform its peers if it can establish sustainable differences. Either it delivers greater value to customers, comparable value at a lower cost, or both.\textsuperscript{22} Harvard Business School Professor Michael E. Porter identifies three strategies for achieving competitive advantage: low cost leadership, product differentiation (allowing higher margins), and market specialization (the exploitation and domination of niches).\textsuperscript{23}

To determine where and how to compete generally requires an objective assessment of the market.\textsuperscript{24} In particular, firms need to consider the appropriate span and scope for their target market to maximize their potential competitive advantage.

A.G. Lafley and Roger Martin developed a framework that complements Porter’s approach.\textsuperscript{25} A good business strategy answers five questions:

1. What is the firm’s winning aspiration?
2. Where will the firm operate?
3. How will the firm win?
4. What capabilities must be in place?
5. What management systems are required?

They suggest the following approach:

- Analyze the industry in which the firm plays (or will play), its segments and their relative attractiveness.

- Consider what consumers need or want and determine how those needs or wants fit their current or potential product offerings.

- Assess the firm’s competitive position, both its relative capabilities and costs. Can it be a cost leader or should it focus on product differentiation?

- Anticipate the reactions of competitors to the firm’s potential actions.
Paul Boothe takes a similar approach in his study on competitive advantage in Canadian manufacturing. He develops a framework for analyzing strategies for competitive advantage using markets, products, and technologies as the organizing ideas (Exhibit 1). Any firm with aspirations to expand abroad must determine how to combine the various elements of this framework into a coherent business strategy.

Who and where? Firms need to start by identifying current and future customers and where they are located. They need to find suppliers and potential partners. They must also understand the business conditions, regulatory frameworks, and nature of the decision-makers in other markets they wish to enter.

What? Firms need to make decisions on what products to produce and what inputs to use. They need to understand evolving consumer and business demands in other markets.

How? Firms need to assess a myriad of factors in determining how to produce products and services in new markets. These range from product design to brand and marketing strategy.

New technologies, including information technologies and manufacturing processes, can be an important source of competitive advantage, reducing costs and increasing productivity.

The activities of Canadian firms seeking to increase their global business can be viewed in the context of this broader framework. In some cases, firms may decide simply to export to other markets; in others, it may be necessary for them to invest in new foreign production facilities in order to participate in supply chains. In some markets and industries, working with foreign partners can mitigate certain types of risks.

EXHIBIT 1 Manufacturing strategies conceptual framework

**Trends in the international activities of Canadian firms**

**Exports are an important contributor to economic growth.** In 2016, Canadian exports of goods and services were valued at $629 billion and accounted for just over 30 percent of GDP (Exhibit 2).

**Manufacturing remains an important engine of growth in the Canadian economy.** It accounts for just over 10 percent of the Canadian economy but makes up nearly 60 percent of Canadian goods exports.27 Ontario accounts for over half of Canadian manufacturing output.

**Exports of both goods and services are important to the Canadian economy.** Service exports have gained increasing importance in Canada’s trade in recent years (Exhibit 3).

Notable areas of growth in Canadian service exports include travel (the purchase of goods and services by foreign travellers in Canada), transportation services (particularly air transportation), telecom, computer and information services, and financial services.
Canadian Direct Investment Abroad (CDIA) has risen sharply in recent years. Foreign direct investment (FDI) in Canada has continued to increase over recent years, and Canadian firms have sharply increased their direct investments abroad. As a result, Canada’s net direct investment position has continued to strengthen (Exhibit 4).

The scale of Canadian affiliates abroad is not well understood. Statistics Canada only recently began compiling statistics on Canadian firms’ foreign operations. Canadian firms often locate production facilities abroad in line with their overall business strategies. In 2014, sales of Canadian affiliates abroad were nearly as large as traditional exports from Canada, amounting to $542 billion or almost 90 percent of the value of Canada’s goods and services exports.28 Manufacturing accounts for the largest share (27 percent in 2014) of Canadian affiliates sales.

Large firms account for about 60 percent of Canadian goods exports. In 2016, over 40,000 firms in Canada exported goods. Roughly 1,100 large firms, only 2.6 percent of all exporters, accounted for the 60 percent of goods exported (Exhibit 5). SMEs are defined as firms with up to 500 employees and large firms are defined as those with 500 or more employees.

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**EXHIBIT 4** Foreign direct investment and direct investment position, Canada, 2010-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Total book value (C$ 2016, billions)</th>
<th>Foreign direct investment</th>
<th>Direct investment position</th>
<th>Net direct investment position</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$1,200</td>
<td></td>
<td>48</td>
<td>248</td>
</tr>
<tr>
<td>2011</td>
<td>1,000</td>
<td></td>
<td>75</td>
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<td>2012</td>
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<tr>
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<td>200</td>
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<td></td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td></td>
<td>224</td>
<td></td>
</tr>
</tbody>
</table>

Source: Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada, CANSIM Table 376-0051.

**EXHIBIT 5** Distribution of exporting firms by size, Canada, 2016

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>Proportion of exporters</th>
<th>Share of export value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (1-99)</td>
<td>68.5 %</td>
<td>19.2 %</td>
</tr>
<tr>
<td>Medium (100-499)</td>
<td>7.6</td>
<td>18.4</td>
</tr>
<tr>
<td>Large (500+)</td>
<td>2.6</td>
<td>59.2</td>
</tr>
<tr>
<td>No employment information available</td>
<td>21.3</td>
<td>3.1</td>
</tr>
</tbody>
</table>

FIRM STRATEGIES: Insights from internationally successful Canadian companies

We interviewed senior executives from six successful Canadian firms to understand their international strategies and draw lessons for other firms looking to go global.

THE CORE OF OUR RESEARCH was structured interviews with senior executives of six Canadian firms that have profitable international sales or operations. Here, we present the result of those interviews. The sample of firms is not random—firms were chosen to include exporters of goods and services and those with international production and sales. Some firms qualify in more than one category, such as those that have both goods exports and international production. Moreover, the responses for each are edited and condensed for brevity and clarity and are not direct quotes.

The firms interviewed were:

- **Cyclone Manufacturing**
  A contract manufacturer focused mainly on precision aerospace parts.

- **EllisDon**
  A construction and building services company engaged in all aspects of construction and building services in Canada and in joint-venture construction project management abroad.

- **IBI Group**
  An integrated architecture, planning, engineering, and technology firm.

- **Linamar**
  A Tier 1 manufacturer (i.e. supplies directly to Original Equipment Manufacturers (OEMs) like GM or Toyota) of precision-machined automotive powertrain parts and aerial work platforms.

- **Magna International**
  A Tier 1 manufacturer of a wide-range of auto parts including electronics, roof systems, powertrain, seating, and vision systems.

- **TWI Foods**
  A manufacturer of specialty food items catering to South Asian tastes.
**Methodology.** Structured interviews were conducted with senior executives in each of the six firms. Six discussion questions were provided in advance and interviews took place either in executives’ offices or by teleconference. The interviews lasted approximately 90 minutes. Interview notes were shared with the executives shortly after the interview to ensure accuracy. Core questions we asked executives:

1. **What were the key drivers/motivators that caused you to enter foreign markets?**

2. **What kind of research did you do before you made your decision?**

3. **What was your strategy for entering foreign markets and what process did you use to develop it?**

4. **What resources helped you the most as you were formulating and implementing your strategy?**

5. **What were the key elements of your competitive advantage in the new markets?**

6. **Looking back, what lessons about what to do or not to do would you draw from your experience?**
1. What were the key drivers/motivators that caused you to enter foreign markets?

Cyclone was largely driven by customers’ needs for high-quality specialized parts that could not be sourced locally. As a contract manufacturer, Cyclone’s business is very much driven by customer demand from the largest aircraft producers and their major suppliers. Often contracts with an existing customer, including other aerospace-parts producers, led to contracts with customers in new markets, including other aircraft producers.

Operating in some markets, including the United States, United Kingdom, China and Taiwan, has proven to be straightforward. Other markets, such as Italy, have proven more difficult. As a result, Cyclone has not pursued new business in such markets.

Aviation parts outsourcing, spearheaded by aircraft assemblers like Bombardier, plays a key role in driving demand for products from companies like Cyclone who are able to produce many different types of parts for various aircraft.

2. What kind of research did you do before you made your decision?

All major aircraft producers and many major parts suppliers are large, well-capitalized firms, making due diligence relatively straightforward since much of the relevant information is in the public domain. Knowing what contracts to bid on and what prices to charge is critical to quickly understanding if money can be made on a bid. Knowledge of production costs at the micro level is key. The market for aerospace parts is very competitive and vigilance over costs and prices is essential to success. Very large companies, like those in China, often lose sight of price and accountability for production mistakes.

Compared to automotive-parts producers, aircraft-parts producers deal with smaller volumes of very expensive parts that rely on costly materials such as titanium. Extensive testing is required and there is no tolerance for errors. The machining of parts is sometimes more complex and production times are longer. Capital equipment is a major cost driver along with the cost of critical materials. Labour costs are not as critical, but margins can be slim on many finished parts.

Cyclone is wary of situations where politics intrude in costing and pricing decisions, such as in supplying state-owned enterprises. Political decisions can turn profitable bids into money-losing initiatives.
3. What was your strategy for entering foreign markets and what process did you use to develop it?

The company’s strategy has focused on supplying high-value-added, capital-intensive parts that often require significant skill levels from staff who are working with expensive materials. The firm’s international business developed organically as a result of contracts awarded by major aircraft producers or their main suppliers. Over time, the company built a reputation for quality and timeliness resulting in new contracts from new aircraft manufacturers in new supply chains.

In entering new markets, aerospace-parts producers can face customs and payment problems. Cyclone tries to avoid these issues whenever possible. About 90 percent of its customers pay for shipping and duties. In other cases, it makes arrangements for shipping on a “duties unpaid” basis in which the customer takes ownership at the border, paying customs themselves. To avoid payment issues, Cyclone prefers to insure its receivables through export credit agencies like Export Development Canada (EDC) and Euler Hermes.

4. What resources helped you the most as you were formulating and implementing your strategy?

Clients who have become trusted partners have helped drive international growth. Bombardier, with its move to outsourcing, has been particularly helpful to Cyclone. In terms of government agencies, EDC’s insurance of receivables has been valuable.

5. What were the key elements of your competitive advantage in the new markets?

Customer service is by far the most important source of competitive advantage for Cyclone. While delivering quality products at competitive prices is essential, personalized customer service is crucial to maintaining long-term loyalty. It is important to build a reputation as a company able to solve customer problems quickly. Cyclone has always kept an open door for clients and paid attention to their needs from the CEO down to the shop floor.

A second source of competitive advantage has been the company’s ability to produce high-quality, anodized parts. Investing in capital equipment for anodizing parts was one of the best investments the company ever made, giving it an advantage over competitors.

6. Looking back, what lessons about what to do or not to do would you draw from your experience?

Producing higher-quality products at competitive prices more quickly than competitors has been Cyclone’s formula for success. Control over costs and competitive pricing, especially given the special characteristics of aircraft parts production, is an essential capability. A customer focus is also crucial. There are few differences between clients: everyone has the same expectations for quality and places the same importance on staying on schedule.
1. What were the key drivers/motivators that caused you to enter foreign markets?

There have been different motivators at different times over EllisDon’s 20-year international strategy. There are three main drivers that caused the expansion into foreign markets. The first is the need to compete in order to survive in a globalized world and marketplace. In order to compete, you need to know what is going on in the world and be a part of it.

The second is that EllisDon’s competitive landscape in its home market in Ontario was worrisome, especially during the 1990s. This drove the firm to look abroad. Third, EllisDon is an entrepreneurial company, and that characteristic has been a core contributor to its success. Fittingly, its international strategy has been to chase and seize opportunities.

2. What kind of research did you do before you made your decision?

Every situation is different and EllisDon has employed different strategies at different times. Staff begin by visiting the market in question and use every connection they have, including clients, architects, and construction companies, to gather market intelligence. In addition, the company gathers information about the tax system, rule of law, and labour practices. Senior people from the company will visit if there are promising opportunities and good market conditions.

At the same time, the firm tries to find current employees who may be from the location under consideration and are interested in returning. Underlying the research, EllisDon is always seeking to answer the question: Do we want to have a base here over the long term?

3. What was your strategy for entering foreign markets and what process did you use to develop it?

The strategy has two universal elements: First, never go without a (local) joint venture partner, someone you trust and who also needs you. Second, do not take the same risks in emerging markets that you do at home. Let the client takes these risks instead. EllisDon achieves the required risk profile by overseeing the process through construction management contracts. It is initially very careful with projects outside of Canada. Once established in a foreign market, more risks can be taken.
1. What resources helped you the most as you were formulating and implementing your strategy?

EllisDon is usually brought into projects because of its systems, people, and values. Trust and integrity are its key assets. For example, with a large Middle Eastern project the domestic actors did not trust each other, but everyone trusted EllisDon. The Canadian reputation for honesty is a really important asset. But, it has to be delivered on – there is damage to the whole Canadian brand if a Canadian firm is involved in anything questionable.

EllisDon has learned the importance of using the firm’s best people on international projects. Anything less than the “A-team” of managers is likely to run into unsolvable problems. Indeed, the scarcity of top talent has been the biggest constraint on growth. Finding energetic leaders is especially important – it is not just about experience and leadership. Good management processes are more than just technical skills. Finally, getting top people to work internationally is an even bigger challenge.

EllisDon has relatively little contact with the Canadian government in relation to its international business. Usually private sector partners, like architects, are most helpful in bringing opportunities to the firm.

2. What were the key elements of your competitive advantage in the new markets?

Two previously mentioned assets, have contributed to EllisDon’s international success: the Canada brand and EllisDon’s top management team. When building their businesses, most Canadian firms do not turn to international markets. But, top international firms compete in Canada. As such, EllisDon agility is a third asset, allowing them to compete with global firms in Canada and abroad.

3. Looking back, what lessons about what to do or not to do would you draw from your experience?

Past failures in international markets have come from:

- Not participating in joint ventures.
- Assuming foreign markets were the same as Canadian ones, the result of not doing the research needed to assess the market properly.
- Taking on too much risk.
- Keeping the firm’s top talent at home rather than sending them to manage the challenging foreign project.

EllisDon is looking at integrated design and production software for future international expansion. The senior management team has been renewed in recent years and it has been recruiting more staff with the international vision needed to succeed abroad.
1. What were the key drivers/motivators that caused you to enter foreign markets?

Early on, the firm was opportunistic, taking advantage of opportunities as they arose in global markets. Over time, globalization became the driver of international expansion and the firm’s ability to exploit its specialized skills. More recently, technology has been a differentiator as the firm developed specialized software that is in demand by foreign clients. Working with the Ontario and federal governments helped IBI establish a strong position at home, preparing them for international expansion.

2. What kind of research did you do before you made your decision?

IBI Group has a broad network of business contacts and partners around the world, which allows it to keep track of opportunities. International associations and financial institutions are channels to meet customers and partners.

Yet, careful risk assessments are still required before undertaking new projects. Over time, risk management has become more structured; the firm considers operating, policy, partner, and business-related risks, like payment, before engaging in a project.

IBI Group also takes into account capacity constraints. Finding the right people, including engineers interested in urban infrastructure and transportation planning, has become an increasing concern.

3. What was your strategy for entering foreign markets and what process did you use to develop it?

As the firm grew domestically, IBI realized that it needed more clients and decided to pursue business opportunities in other countries. Through its network of contacts and partners, the firm worked to find new business, developing long-term relationships with clients over time.

Where appropriate, the company established local offices and hired locally. Working with local partners proved helpful, as knowledge of local planning processes is important. Setting up local operations, thereby stimulating business opportunities for local partners and suppliers and contributing to the communities where the company was based was also helpful. In some instances, IBI became infrastructure operators, generating new opportunities.
4. What resources helped you the most as you were formulating and implementing your strategy?

The financing and support provided by EDC for things like business visits has been valuable. Also, IBI has benefitted from support of the Ontario and federal governments. In particular, public sector procurement has allowed the firm to participate in projects in Ontario, including Public-Private Partnerships (PPPs), allowing IBI to hone its expertise before taking it global.

Indeed, projects and technology proven in Canada helped establish the foundation for expansion in other markets around the world. For example, technology developed for Canadian urban traffic management systems has been deployed in jurisdictions around the world. To address capacity constraints, IBI utilizes its system developers in some of its key regional offices around the world, as well as in its Toronto base, to develop new technology for projects like smart city initiatives.

5. What were the key elements of your competitive advantage in the new markets?

The company’s track record of successful projects shows that it can deliver results to clients. Successful testing of products and services in the firm’s home markets is critical.

The firm’s reputation is built on more than good technology; Canada’s reputation or brand is also important in achieving success in new markets. The success of other Canadian companies in these markets has an influence on IBI’s own prospects. Nurturing long-term client relationships also helps solidify competitive advantage and a competitive currency is also an advantage vis-à-vis US and European competitors.

6. Looking back, what lessons about what to do or not to do would you draw from your experience?

Without having completed a project at home, companies cannot expect to succeed abroad.

A lesson learned is the need for diligent review of contracts at the outset: Government support through introductions and financing through agencies like EDC is helpful, but it is not a substitute for careful consideration of contract terms—knowledge of international legal requirements is a necessity.

Companies should also be prepared for the potential of excessive costs to execute a project and should always carefully vet prospective partners. Finally, it is important to maintain a positive cash flow throughout the phases of a project instead of relying on payment upon completion.

With so many regional offices and projects in different countries, good controls at the centre are critical. These include: regular regional office reporting, an accountability matrix (with double signoffs on significant transactions), and a firm-wide resourcing management (ERP) system.

An emerging concern for firms like IBI that work in markets across the world is the growing loss of political support for globalization. Over the longer term, this could affect the willingness of jurisdictions to engage international firms.

Working with the Ontario and federal governments helped IBI establish a strong position at home, preparing them for international expansion.
Identical production systems at home and abroad ensures high quality products

1. What were the key drivers/motivators that caused you to enter foreign markets?

Linamar is a growth-oriented company. They see growth opportunities everywhere, including work that Original Equipment Manufacturers (OEMs) currently do themselves. The automotive industry has become a global industry and Tier 1 suppliers like Linamar need to have global platforms to supply their OEM customers wherever they decide to produce. OEMs are rationalizing their components, moving to fewer choices of transmissions, and outsourcing more to suppliers like Linamar. As OEMs become more global, firms that wish to participate in the business of supplying them must become more global themselves. A successful Tier 1 supplier launch reduces risks for OEMs who want the same supplier in foreign markets.

In the case of non-automotive aerial work platforms like Linamar’s Skyjack, the firm wants to grow its business beyond North America, particularly in Europe and Asia. Skyjack products are used in construction and there are opportunities in markets beyond North America – in China buildings are still erected using extensive old-fashioned scaffolding. Skyjack’s main competitors are already operating there, and that is a further driver of Linamar’s interest in expanding into that market.

2. What kind of research did you do before you made your decision?

Careful due diligence is required in assessing business and other conditions in prospective new markets. Along with carefully forecasting the volume of business it can do in a country, Linamar considers the political situation, overall stability, and pattern of economic growth. Despite pressure from its OEM clients, there are some countries where the risks of operating outweigh the potential for business. In some cases, this is due to a history of corruption or instability.

Winning business from an OEM operating in another country is generally the stimulus for Linamar to establish new plants there. Proximity is important, especially when supplying parts that are costly to ship such as powertrains. OEMs may also “nudge” the company to establish local operations in their home countries.

When launching a new international plant, Linamar tries to replicate its successful Canadian plants that produce the same products. It similarly tries to use identical production processes, bringing employees from its base in Guelph to launch the new international facility. A failed launch is costly, so senior management is very focused on ensuring successful launches. However, an overlong process can divert attention from the company’s overall strategy.

Other companies are acquired based on a strategy of vertical integration. For instance, it made sense for Linamar to acquire forging capability to match its machining expertise. This has also stimulated internal innovation while decreasing its reliance on Tier 2 suppliers. The acquisition of Montupet, for example, led to new Chinese and European opportunities for the company.

Finally, joint ventures are undertaken when they make sense, such as Linamar’s joint venture with the Swiss company George Fisher, which performs high pressure die casting in North Carolina.

3. What was your strategy for entering foreign markets and what process did you use to develop it?

Most critically, Linamar goes into foreign markets with its eyes wide open, especially cognizant of different cultural norms. Failure to take these into account can drastically hinder its ability to launch a new plant.
Based on experience in markets like China or India, Linamar has deployed teams from its Guelph operations who understand not only the language and culture of the jurisdiction they are entering, but also Linamar’s own company-culture. Sometimes this is a good fit for the families of employees, but not in all locations. Linamar has hired government relations people to smooth entry into complex markets, like China, and has also relied on Canadian embassies and consulates for introductions and intelligence on current conditions.

Linamar can enter a foreign market either directly or indirectly via nations with Free Trade Agreements (FTAs) with the target country. For example, Linamar expanded into Brazil through Mexico’s FTA with the South American nation, thereby avoiding high duties that could otherwise make importing parts uncompetitive.

### 4. What resources helped you the most as you were formulating and implementing your strategy?

The company has largely depended upon the internal expertise it has developed over the years. Such experience, both positive and negative, has been critical to its approach. Linamar’s diverse Canadian-based workforce has also been a source of strength in expanding into countries like China and India.

### 5. What were the key elements of your competitive advantage in the new markets?

The quality of Linamar’s products and its ability to deliver consistently on time are essential to its success in North America. Linamar can quickly adapt its products to its customers’ needs.

The firm stresses continuous improvement and lean manufacturing techniques in all its plants. It tries to drive waste out by continually assessing the costs of consumables, energy, and other elements of the production process. As with the Toyota Production System, Linamar runs an open system, encouraging its suppliers to adopt its advanced production techniques. The company also invites its foreign-based employees to Guelph for training. An innovative aspect of Linamar’s approach is the deployment of cost attack teams, led by its founder, to disseminate best practice solutions to production and cost problems that arise.

Linamar plants in other markets are identical to its plants in North America. It not only uses the same capital equipment, but also maintains the same standards of safety and cleanliness.

Product pricing is built on a threshold return of 20 percent on capital. While this may make it difficult to win some bids, it maintains Linamar’s ability to sustain its operations and maintain high quality and standards. Senior executives must approve any deviation from this pricing policy.

### 6. Looking back, what lessons about what to do or not to do would you draw from your experience?

A number of lessons emerged as Linamar grew. First, a company needs to go global if their clients and competitors are already doing so. Further, it needs to adjust to the needs of clients as they move, for example, to outsource more of their operations. Another key lesson is the importance of culture when launching new plants in foreign markets.

Finally, companies must recognize mistakes and move quickly to fix them. It is crucial to have the right management teams in place in new international plants. Linamar has learned not to be hesitant in making necessary changes. A good approach in foreign operations has been to answer the question: if this happened in one of our Guelph plants, what would be done? Failing to act quickly to make a change of leadership can undermine the whole management team in a plant.
What were the key drivers/motivators that caused you to enter foreign markets?

The key driver for Magna was following its Original Equipment Manufacturer (OEM) customers as they moved into foreign markets. Sometimes, customers have asked it to set up operations in these markets. Magna is also proactive in seeking opportunities abroad. It monitors growth and development in different regions and different countries and also assesses opportunities for supporting different vehicles as they are developed by the OEMs. Magna anticipates the manufacturing cycle for new vehicles and decides whether it makes sense to develop specific auto parts to support them in development.

The company works to understand the conditions that would apply to its operations in foreign countries and to determine whether operating and producing in those markets makes sense. While the company would prefer to produce the same products in a new market as it produces in North America, it also needs to remain cost-competitive and that may drive some differences.

Magna analyzes its customers’ needs (both their strengths and their weaknesses) and works to develop business opportunities with them. That includes new vehicle assemblers in China and other emerging markets as well as new electric car producers.

What kind of research did you do before you made your decision?

Magna examines its customers’ needs and also assesses the market penetration of competitors when doing due diligence in new markets. The company pays close attention to the nature of the vehicles that will be produced and attempts to forecast demand for such vehicles, its own costs, and return on investment.

It views quality as a differentiator, and insists that its standards be met in all operations. It also strictly adheres to financial thresholds in deciding whether to take on new international business. Certain financial thresholds must be met to justify the sizeable capital investments that are required. Failure to meet these financial hurdles jeopardizes profitability.

What was your strategy for entering foreign markets and what process did you use to develop it?

A great deal of information is analyzed before entering a foreign market. That information can come from its own suppliers,
government sources, or its lawyers who examine ethics, compliance, and legal issues. Countries vary considerably in the challenges they pose for businesses. It is crucial to have a thorough understanding of local conditions before making a decision to set up operations.

Many groups within Magna, including business development, operations, legal counsel, and human resources contribute to the analysis. Tax and regulatory concerns must also be factored in—while most of Magna’s analysis is performed in-house, from time to time the company relies on international consulting companies with specialized local knowledge.

In analyzing the whole picture, it is also necessary to understand the depth of the supply base, as this also affects the company’s costs and pricing. In some cases, Magna can bring some of its own suppliers with it, but this may not be feasible for all suppliers.

4. **What resources helped you the most as you were formulating and implementing your strategy?**

   In accessing resources, one consideration is proximity to existing Magna plants. For example, it is easier for Magna to rely on its staff in Germany to assist with a new plant elsewhere in Europe. Magna will send staff from Canada, the US or Germany to launch a new foreign plant. But, wherever possible, Magna tries to develop local management as soon as it can.

   Developing local managers to run new facilities is a critical success factor. The firm puts a lot of emphasis on developing and looking after the people it hires and the cultural diversity of the Magna workforce is very valuable. The company can draw on excellent people from its workforce who have knowledge of other countries and want to serve as managers abroad.

5. **What were the key elements of your competitive advantage in the new markets?**

   Magna wants continuous improvement, not cookie-cutter approaches. Giving managers and workers the flexibility needed to innovate and improve products and processes, while respecting Magna’s baseline disciplines, is a critical success factor.

   Its culture is decentralized with plant managers given considerable autonomy to improve products and processes as long as corporate standards of product quality and cost are respected and employees are treated well. The company seeks to achieve a balance between providing returns to shareholders, serving its customers, and treating its employees with respect.

6. **Looking back, what lessons about what to do or not to do would you draw from your experience?**

   Understanding how to deal with the risks that can materialize in a new country has been a key lesson. Completing the appropriate due diligence is invaluable and can save both time and money. Entering a new market too quickly, without doing your homework in advance, can lead to problems that will take a long time to fix. Companies that lack all of the information needed to make fully informed decisions, should at least understand the risks that they are running and be prepared to deal with them.

   Giving managers and workers the flexibility needed to innovate and improve products and processes, while respecting Magna’s baseline disciplines, is a critical success factor.
TWI FOODS
Canadian brand and diverse tastes lead to new product development

1. What were the key drivers/motivators that caused you to enter foreign markets?

The need for growth was the key driver and expanding into foreign markets offered the best opportunity. Another important driver was the need to achieve viability in terms of scale. At the beginning, it was difficult to achieve significant market share in Canada due to competition from large food processors.

While producing in Canada involves higher manufacturing costs, the labour force is more productive and the overall business environment, including government services, more efficient. TWI believes there is no cost disadvantage to producing in Canada.

2. What kind of research did you do before you made your decision?

Completing due diligence on all likely scenarios is key before making important moves, such as entering new markets. Companies must also plan for contingencies; a will to succeed is essential, because setbacks are inevitable. TWI’s initial expansion into the Middle East was hampered by hold-ups of container shipments at customs. TWI staff needed to work through the problems and sort them out. A key lesson was to send staff to new markets to gain local knowledge, and then stay on to ensure good service to customers.

3. What was your strategy for entering foreign markets and what process did you use to develop it?

In advance of moving into new markets, it is important to set up distribution systems and establish reliable agents and infrastructure. There are no short cuts. TWI sets up distribution networks itself when it cannot depend on the right agents. When selecting these agents, it is important that TWI be a significant portion of the agent’s business. If this is not possible, it may be better for the firm to handle distribution itself.

As a general matter, investing in sales and marketing is a very important part of doing business internationally. It may take a year or more to ensure the company’s products are being properly handled and sold. And it is not just about shipping to a distributor – follow up is critical. This requires staff who are dedicated to merchandising and providing excellent customer service to clients.
4. What resources helped you the most as you were formulating and implementing your strategy?

Support from government at all level has been very helpful overall. The Business Development Bank of Canada (BDC) provided initial financing of their first production facility. The Ontario Ministry of Agriculture, Food and Rural Affairs was very supportive as the company grew, as were the City of Toronto, federal trade commissioners, and Export Development Canada.

5. What were the key elements of your competitive advantage in the new markets?

Establishing a brand that signifies premium products gave TWI a key advantage. In that regard, the “Made in Canada” brand is a plus in food products, supported by the Canadian Food Inspection Agency’s strong food safety standards. The unmatched quality of Canadian ingredients, like wheat and butter, also contribute to the brand.

The diversity of tastes in the Canadian market helps with new product development. Building the Crispy brand over time allowed TWI to move more into the mainstream retailers in Canada and, increasingly, the ethnic food category in the US. This has allowed the firm to broaden the range of products it sells in North America as well.

TWI believes that it is better to establish its own brand than to co-pack for others. Having its own brand gives the firm the freedom to absorb cost increases or pass them along. With co-packing, cost increases must always be absorbed.

6. Looking back, what lessons about what to do or not to do would you draw from your experience?

It is important to keep a balanced perspective regarding foreign expansions and not rely excessively on feasibility studies and so-called objective analysis. There will be obstacles and setbacks, so companies should retain room to manoeuvre to adjust to changing circumstances.

In retrospect, TWI may have been too aggressive in diversifying its products. A focus on fewer products would have reduced the burden on production capacity. Overall, however, experimenting with new products has been helpful to TWI’s growth.

While producing in Canada involves higher manufacturing costs, the labour force is more productive and the overall business environment, including government services, more efficient.
Chapter 3

Comparing the Strategies:
Leveraging competitive advantages are key for success

Though there is substantial diversity amongst the six companies we examined, including firm size, goods versus service exporters, and production at home versus production abroad, some interesting common themes emerged. Ultimately, firms emphasized the need to understand and exploit their competitive advantages in order to succeed.

Key drivers of international expansion. A number of firms described themselves as “growth oriented” and pointed to the need to enter international markets to continue that expansion. Another driver was the need to supply existing customers as they expanded internationally. Finally, international growth allowed some firms to achieve a competitive scale of production or to exploit a capability that formed a basis for their competitive advantage.

Research prior to international expansion. The majority of firms used their own staff to conduct the essential due diligence before an international expansion. Critical elements included understanding the foreign business environment, like rule of law, legal and taxation systems, and human resource practices, and the business case for the particular product or services being supplied. This latter research looked at the viability of potential customers, the availability of talent (both within the firm and at the new location), and the existence of potential local partners. Firms emphasized the need to get on-the-ground intelligence from in-depth visits to the new market.

International expansion strategies. It was on this issue that the firms were most diverse. For some, their fundamental strategy was to follow major customers into new markets. For others, it was to exploit particular capabilities in new locations. For yet others, the existence of key local partners was essential and a culturally diverse Canadian staff was a key asset in establishing foreign operations. Finally, a number of firms emphasized the need to maintain the same quality characteristics and financial thresholds in foreign markets as they expected at home.
Resources for international expansion. All firms led with the value of Canada’s international brand for quality and integrity as a key resource. Trusted clients topped the list for goods producers in our sample. Exporters also had high praise for EDC. For service exporters, the role of domestic government procurement in allowing them to succeed at home first was highlighted. Finally, a number of firms pointed to the value of their culturally diverse Canadian staff in managing the move into foreign markets.

Sources of competitive advantage. Almost all the firms interviewed pointed to superior customer service, quality, and timeliness as key sources of competitive advantage. In some cases, firms had a unique process or capability that gave them an edge over foreign competitors. A strong track record for delivering results in Canada was highlighted as a critical element of gaining acceptance internationally.

Lessons learned. Firms emphasized the need to understand and exploit their competitive advantages. These advantages are developed first at home and then taken abroad. Developing a deep understanding of foreign markets was also highlighted. Finally, firms pointed to the need to apply the same standards to foreign operations as they do at home in order deliver consistent value to customers regardless of location.

2 Bernard, Jensen, Redding, Schott. “Firms in international Trade,” 105-130.


4 ibid.

5 ibid.


13 ibid.

14 Data from Statistics Canada, CANSIM Table 228-0069.


23 ibid.


27 Statistics Canada, CANSIM Table 379-0031; Statistics Canada, CANSIM Table 228-0071.

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