

Beyond imports-exports...

Using the international scene to enhance your value chain

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In the last decade, international trade has changed so much that the expression “import-export” no longer accurately reflects what our businesses are experiencing on foreign markets. In fact, a growing number of companies, even small ones, can and must globally redeploy what is referred to as their value chain in order to remain in the race, from procurement to after-sales service, not to mention operations and marketing. SMEs who want to play in the big league must make sure they are always equipped with world-class tools.

Quite often, SME leaders claim to offer “the best product in the world.” However, once they move past our borders, they quickly realize that they’re going to have trouble living up to their claim if they don’t obtain their supplies from the “best global sources.”

While international trade brings a new set of rules and challenges, it also offers a wide selection of business models that make geography irrelevant. Outsourcing abroad, offshoring, licence transfers, joint ventures and foreign direct investments are just some of the buzz words currently being used by SMEs looking to boost their competitiveness.

The liberalization of global markets since the fall of the Berlin Wall, together with the emergence of the Internet in the ‘90s, now allows companies to virtually promote and even sell their products and services around the world. However, as a growing number of new players make their way into their backyard, SME leaders are discovering that they not only have to do things differently, they have to find entirely new ways to consolidate their local market while ensuring their visibility abroad.

Equipment, furniture and services today are increasingly “decomposed,” meaning that they are no longer produced in a single country. Not only do the furnishings in our living room and bedroom come from a host of foreign nations, their very components trace their origin to a variety of places. In fact, over 60% of all the goods produced come from a country other than the company’s country of origin. Services are equally affected by this trend (e.g. call centres in India). This reality is also a real headache for companies which must determine the domestic content of their products in order to benefit from tariff privileges (or avoid customs duties) contained in free trade agreements.

Therefore, companies that want to stay in business and remain competitive in this new international trade environment must examine their options, for example:

- Identify the best supply sources in the world;
- Outsource certain unprofitable activities;
- Forge strategic alliances (with or without capital); and
- Invest in a production or marketing subsidiary.

Such choices should not be made lightly. Their scope must be analyzed, as well as the pros and cons, the risks, and how much control you want over your international activities.

Greater competitiveness often begins by developing a network of suppliers, manufacturers and subcontractors in countries with a comparative advantage over Canada. Thus, the supply chain can be deployed in light of the company's internal needs and external potential. In fact, Export Development Canada (EDC) acknowledges that in order to boost productivity and competitiveness at home and abroad, foreign direct investment can be the right choice for SMEs that export and import.

In the same vein, aligning yourself with a partner, i.e. at the marketing stage can be an excellent way to penetrate a foreign market. In a context where product lifecycles are getting a lot shorter, you don't have decades to sell; hence the relevance of strategically located partners who have a vested interest in helping with the promotional and commercial effort. One thing's for sure, in this vast world, a company that tries to do everything itself runs the risk of missing out on some business opportunities or getting itself knocked out of the game in the medium term. This is especially true for SMEs, which should not even contemplate international expansion without a partner. In distant markets, the partner becomes more than just a cog in the wheel; it represents the company on this territory and helps eliminate, or at least reduce, the cultural barrier impact. The trick, of course, is to choose the right partner.¹

¹ See article *Your invaluable foreign partner*.

Creating a production or marketing subsidiary is a more sophisticated approach that also comes with set of rules that go beyond merely importing or exporting. Intellectual property protection, international taxation, the work environment and labour rights are just some of the considerations when the time comes to invest abroad. Here again, other types of partners (e.g. financial institution, attorney, marketing consultant...) could intervene to help the company clearly define its business model.

In short, re-evaluating your value chain in a broader perspective can lead to a world-class offering. Expanding your value chain around the world will give you new options that will result in lower costs, better quality and access to new sources and resources that will boost your visibility.

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