

# Successfully Crossing Borders





In the spring of 2019, Raymond Chabot Grant Thornton completed a report on Quebec SMEs' main challenges based on a Léger survey conducted with about 300 business leaders in the province. This research helped determine the status of Quebec businesses with regard to international development and better identify the factors that motivate or hinder such a growth strategy.



# A Strategy That Bears Fruit

In a context of globalization and increased competition, one avenue that companies are considering to ensure their growth is to develop internationally.

With new trade agreements, such as the Canada-U.S.-Mexico Agreement, the Comprehensive Economic and Trade Agreement with the European Union and the more progressive Comprehensive Trans-Pacific Partnership Agreement, in effect since December 30, 2018, Canadian companies must take advantage of the measures at their disposal to advance and conquer new markets.



10%

However, among the leaders questioned,  
only 10% said that they expanded abroad  
in the past two years.

## Main reasons for doing business abroad



28%

development  
potential



25%

revenues



18%

a growing  
industry

# Main Challenges When Developing Abroad

Whether it's exporting products or know-how, developing a partnership, making an acquisition or setting up an establishment, every international expansion strategy has its advantages and risks. While 81% of leaders consider that the business was prosperous, we cannot underestimate the challenges they faced.



22%

Visibility,  
marketing



16%

Transportation/  
delivery logistics  
(+ customs taxes)



13%

Finding the right  
partners



12%

Knowing the market  
well and how to adapt  
to local culture

6%

- Export policies
- Financing, lack of resources

3%

- Communications,  
information support

4%

- Be competitive, increase sales

15%

- Other

# 5

## Steps For Planning International Growth

Among the companies surveyed that still have not expanded abroad, 10% plan on doing so in the next five years.

The proportion doubles (22%) for organizations with 100 employees or more. If you have a similar project in mind, here are five steps in order to maximize the chances of a successful expansion.



### Examine all angles of the strategy

First, it's important to determine whether exporting is truly one of the best growth strategies for the business, and if the time and resources needed to succeed are available. This project must also have the full support of management and be integrated into the company's overall strategy.

# 1



# 2

## Analyze all export aspects

This analysis helps determine the business's major functions.



### Human resources

Have your employees received the appropriate training?



### Marketing and distribution

Are your marketing tools appropriate?  
Which distribution method will be used?

Marketing and visibility are actually the major challenges for 22% of leaders who choose to expand abroad.



### Production

Are you able to meet an increase in demand or will you need to expand facilities and buy additional equipment?



### Financial and legal resources

What is the company's short- and long-term financial capacity? How much will cost the expansion and what means of financing have you planned? Will intellectual property be protected abroad?



Carried out with the help of external experts, this analysis will help identify the company's weaknesses with regard to general export risks and challenges, and develop an action plan in response.



## Target and analyze the market

# 3

Close to half (47%) of the leaders surveyed state they conducted a market or marketing study before launching international business. Conducting such a study can help understand the business dynamics of a market, the profile of future customers and barriers to entry. It's important to properly analyze the potential and characteristics of the target market by visiting it as often as possible.



Selecting a new business market is the crucial point of an international expansion strategy.



**Asia, South America, Africa and the Middle East are top destinations for Canadian exporters given their stronger growth rate than North America's.**

However, political and economic contexts must be taken into consideration. Knowing the target market well and being able to adapt products and services to the local culture is the fourth greatest challenge of respondents who have expanded internationally. Trade commissioner offices in targeted countries can especially be useful in learning about current trade and legal regulations.





## Develop a strategy for this market

You must then develop an operating and marketing strategy tailored specifically to this market. This step can be addressed through a partner or established distribution network, among others, or by sending representatives to the concerned region.



### **Finding the right partners or contacts who are useful abroad is the third greatest challenge for leaders.**

This step saves considerable time and money, while reducing the risks associated with expansion. Nevertheless, the reputation and financial strength of the business contacts and partners in the targeted countries are essential. It is therefore important to be prudent and create long-term trustworthy relationships. The federal government, professional associations or the Trade Commissioner Service can help businesses find these resources more easily. You should also plan on visiting the target country several times if necessary, and perhaps even participate in trade shows as an exhibitor.



### **Transportation and delivery logistics are the second greatest challenge when developing abroad.**

This is why it's important to know the rules in effect, distribution channels and labelling requirements in the countries targeted for exports. Compliance with regulations is essential to avoid delays and customer dissatisfaction. Establishing a long-term relationship with reliable and competent partners with a similar corporate culture facilitates the management of day-to-day customs and security operations, regardless of price variations, traffic and security measures in place. A company's supply chain must be fast, affordable and reliable in order for it to stand out and grow internationally.

“What works well here in Quebec may not necessarily work abroad. You have to know how to innovate and adapt so that products and services meet the expectations of the target market.

– Suzanne Breton, Senior Manager, Management Consulting





## Analyze your financial needs

Lastly, it's important to thoroughly analyze the costs of a project and examine how to finance it. There is a wide range of financing options for an international project through export loans and subsidies. For a company or individual, doing business abroad requires careful planning and strict compliance with the tax laws in effect in each market.

An international expansion project requires not only detailed planning, but also and above all an in-depth reflection on the company's current and future situation.

- **Why consider doing business abroad?**
- **What are the key factors for a successful expansion abroad?**
- **What must be taken into consideration with regard to international mobility?**

### Watch this webinar

to learn more about international businesses' growth strategies.

\*Webinar available in French only.



# International Acquisition: Is It a Winning Solution?



**Martin Deschênes,**  
**CPA, CA,**  
**Financial Advisory**  
**Partner,** shares his  
tips on how to be  
successful abroad.

Two strategies can be used to tackle a foreign market: establishing your own presence or acquiring a company that is already there.

Your SME has grown in the past few years. You are ready to expand outside Quebec by acquiring another company. Your analyses show that this would be the most beneficial and least risky solution. However, it's not the only factor to consider.

In your assessment,  
ask yourself whether  
the targeted company:



Has a solid management team.



Sells products or services with high potential.



Is in a market providing strong  
growth opportunities.



Presents opportunities for synergies that  
will add value to the company, for the benefit  
of all stakeholders.

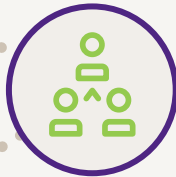
Note that it is usually more advantageous to acquire a company that is less profitable than yours because there is a stronger potential to grow its earnings in relation to the transaction cost.

# Team Work

Here are **some important things** to do to make the transaction successful:



Make sure you have a competent team that has already made acquisitions outside Quebec and knows the market where you want to get established. You will probably need to call on external specialists to assist you with financial, tax, legal, environmental and other issues.



From the get-go, involve the managers of your current activities (production, human resources, etc.) in the acquisition project and the preparation of the targeted company's integration plan.



Carefully prepare your integration plan and apply it diligently. The integration must not last more than two years; otherwise, it will be difficult to achieve the expected synergies.



However, be flexible in applying your integration plan. Adapt to circumstances and, as needed, adjust some of your anticipated actions.



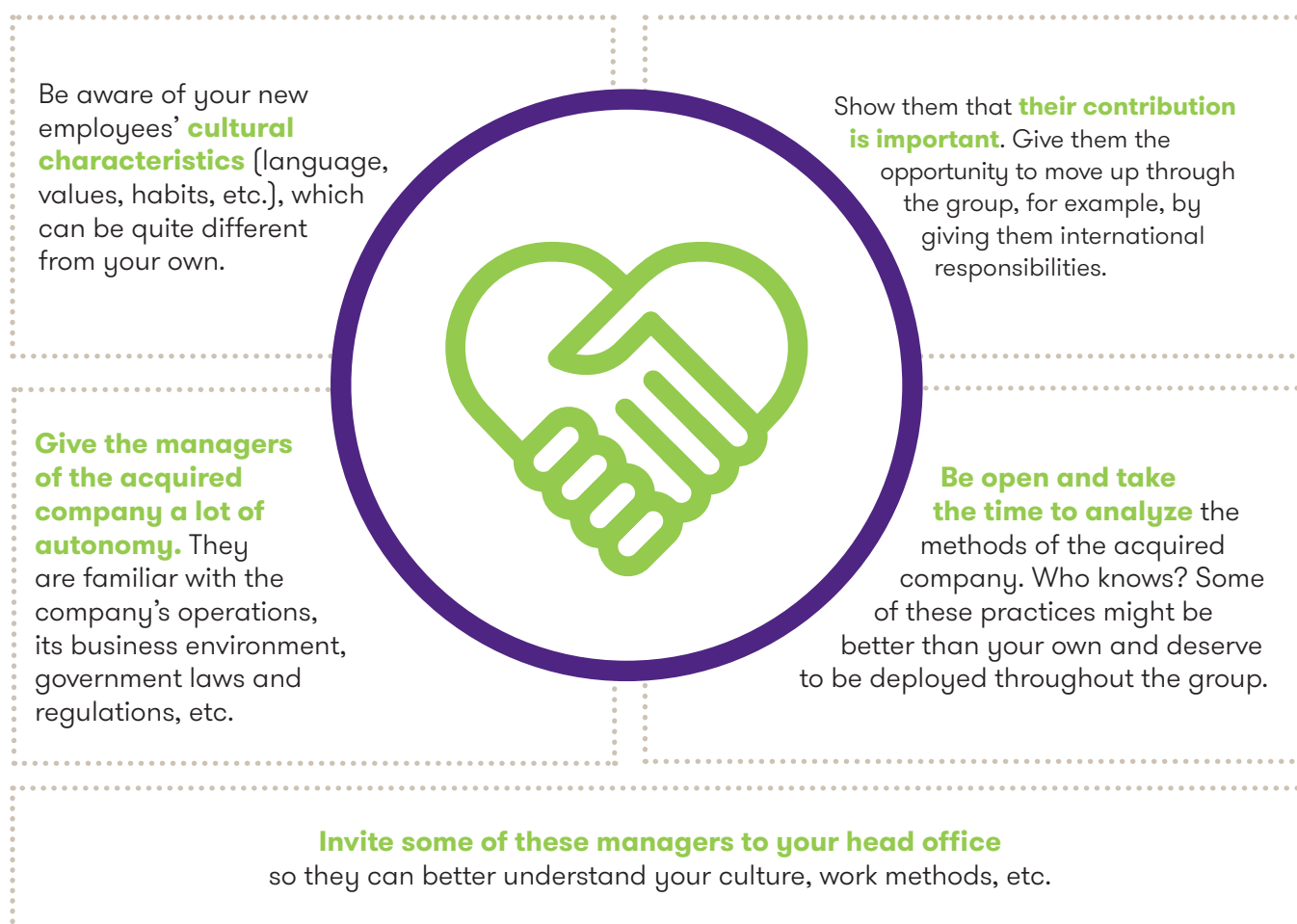
Delegate key people from the head office to ensure that the integration process runs smoothly. They will also ensure that your new employees are adopting your business's culture and rules.



Don't underestimate the costs for integrating the other business: they are often higher than anticipated.

# The Human Aspect: a Key Issue

The purchase of a company outside Quebec includes a particularly **important human component**. Your ability to bring your new employees to fully participate in the company's growth will be essential to the success of your project. To do this:





# Interview with an International Development Expert



**Pascal Leclerc,  
CPA, CA, LL.M. Tax,  
Tax Partner,** talks  
about the successful  
collaboration with  
LCI Education.

For more than 30 years, the LCI Education network (LCI) has multiplied its international campuses, with an enviable presence on all five continents today.

This family business was able to stand out and gain visibility thanks to its leadership and highly developed instinct for growth. Raymond Chabot Grant Thornton's audit, tax and consulting services specialists have been working with the company for several years to consolidate the financial and strategic aspects of its expansion activities.

?

**How did you  
support the group  
in its international  
approach?**

“ LCI already had a few schools abroad when we started working with them to provide tax and accounting support.

**We helped them structure acquisitions, particularly in Europe and North America, to ensure that everything was completed properly.**

Our support ensured the optimum situation for the client at all times.



**What was special about this assignment?**

“We are regularly confronted with different regulations depending on the field in which our client operates.

In this case, while we were very familiar with the tax concepts, we had to adjust to apply them properly to the targeted field.

**Did you have any obstacles or challenges to overcome?**

?

“In an expansion process abroad, getting bigger is not enough. The company must be operational abroad as well.

The financial statements must be consolidated in order to meet the financial institutions' expectations.

From an accounting perspective, we overcame the challenge of consolidating all information to reach this level. We assisted the group in the production of reports and consolidated financial statements to ensure that the documentation meets standards and that the vision is global and not only Canadian.

“LCI considerably benefited from the support of Pascal and his team. They helped make international transactions easier and ensure that we were maximizing our investment.

– Claude Marchand, President and CEO, LCI Education

# Doing Business Abroad: Trends and Opportunities

It's interesting to note that several global trends are emerging in international taxation for the next five years, such as:



**Harmonized tax practices.** There is certainly a desire on the part of the G20 members to standardize certain tax practices, a task that has been entrusted to the Organisation for Economic Co-operation and Development (OECD) as part of the Base erosion and profit shifting (BEPS) project. Although the OECD has no legislative power, many of its recommendations have been implemented in the tax laws of several jurisdictions, including measures against hybrid instruments and the requirement for large multinational corporations to disclose the nature of their activities in each of the countries in which they have a presence through the Country-by-Country Report.



**An increase in the importance of transfer pricing.** Canadian companies doing business abroad are already well aware of transfer pricing rules. According to Marie-Pierre Pelletier, International Tax Senior Manager, it's expected that these companies will be required to report more information on their related party transactions to Canadian and global tax authorities. Tax authorities are placing increasing emphasis on taxpayer transparency and want to obtain a global picture of transactions.



**Changes in the taxation of digital businesses.** The criteria for taxing a corporation's income in a jurisdiction are largely based on physical presence. As such, many of the companies operating in the digital economy are not taxable in the countries where they operate because they do not have a location in those countries. As a result, governments are under great pressure to revise tax laws and tax Web giants such as Google, Amazon, Facebook and Apple (GAFA) in the jurisdictions where they generate profits. G20 members have mandated the OECD to review the taxation of digital businesses, with the aim of reaching a consensus by the end of 2020. However, the current lack of an international consensus on how to tax digital businesses increases their risk of double taxation. A corporation could have to pay tax on its digital income in a jurisdiction that has legislated in this respect (such as France), while it would not receive an equivalent tax credit in the jurisdiction where it is traditionally taxed.





**Tighter U.S. sales tax regulations** to increase the tax responsibilities of non-resident suppliers. In the wake of the United States Supreme Court decision in the Wayfair case, several states have implemented measures that now require non-resident suppliers who have no physical presence in the United States to register and collect sales taxes if they exceed a certain sales volume, in terms of number of transactions or dollars.

Lastly, it's important to note that, in the United States, state taxes may apply, in addition to local sales taxes imposed under separate legislation, with no harmonization possible\*.

“These new obligations not only impact suppliers who sell to consumers, but also those whose customers are producers, manufacturers and resellers. These suppliers may be required to satisfy all compliance obligations, in terms of both registration and declarations and the management of exemption certificates.

– Maryse Janelle, Tax Partner



**Increasing corporate social responsibility.**

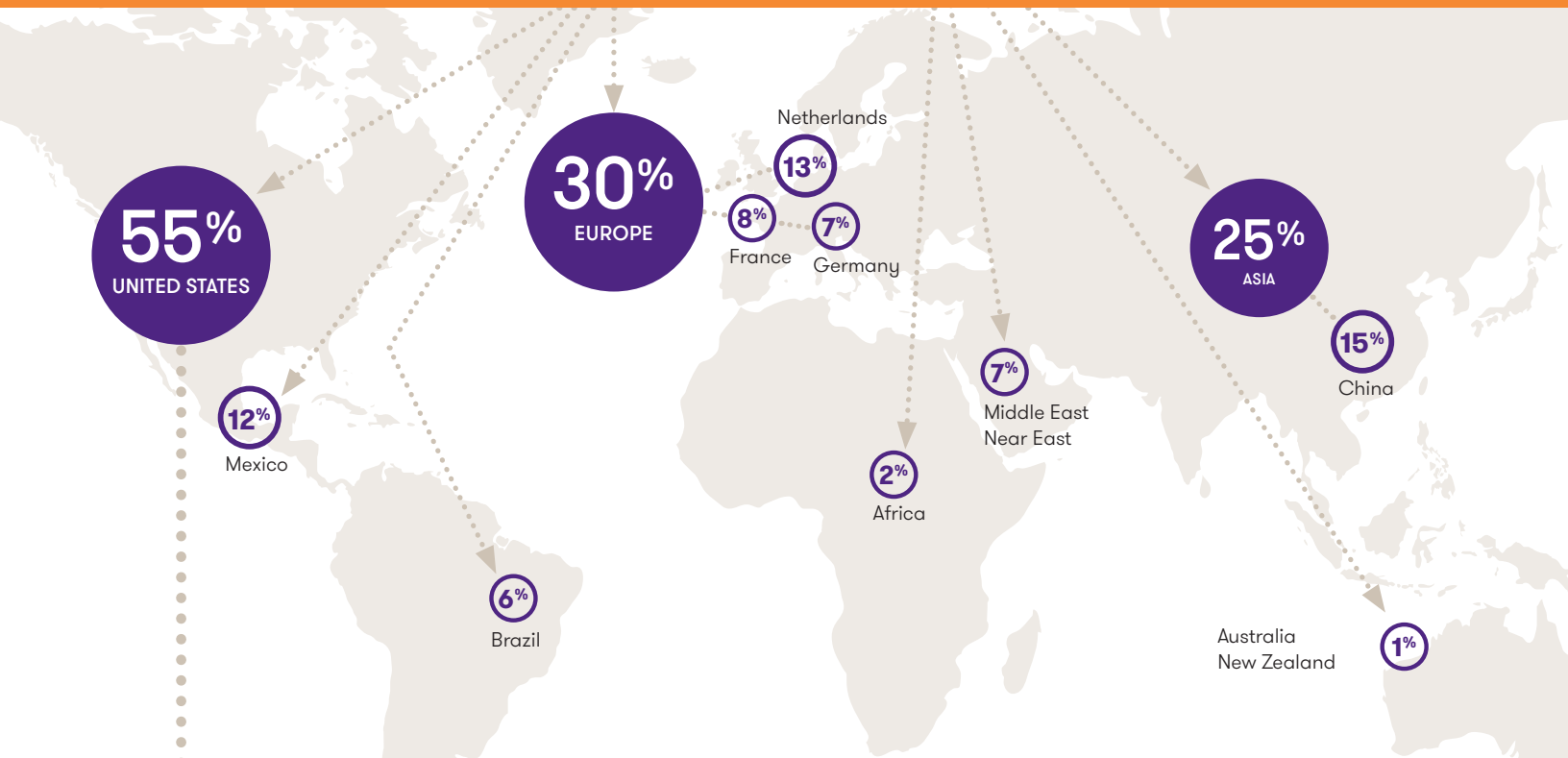
This covers the social, environmental and economic aspects of sustainable development and could further dictate the tax behaviour of companies, in particular, with a view to enhancing their reputation.

Only 19% of Quebec SMEs believe they fully understand the various aspects of American and international taxation, which is crucial in the context of development abroad.

*\*On June 21, 2018, the United States Supreme Court issued an opinion in South Dakota v. Wayfair, overturning the long-standing standard of when a state can impose a tax burden on a business.*

# International Development Locations

**10%** of Quebec SMEs state they have expanded abroad.



Of the executives who reported pursuing expansion activities outside Canada in the past two years, 55% of them conduct such business in the United States.

Several experts argue that the recent U.S. tax reform has made international taxation more complex. Yet, according to Benoit Turcotte, Tax Partner, it also offers opportunities for Canadian companies doing business in the United States or having subsidiaries there.

“Among other things, corporate taxation has decreased, and entities that make investments in that country receive some tax benefits.

– Benoit Turcotte, Tax Partner

# An Entrepreneur With a Vision

In 2013, Patrice Marin co-founded district m, a company specializing in the development of digital advertising programmatic solutions.



His extensive market knowledge and on-site work have greatly contributed to the business's rapid growth. Over the years, he and his partner have not hesitated to take risks to develop the company and to forge decisive partnerships to develop new business solutions.

Having captured the U.S. market for more than two years, district m now derives nearly 91% of its revenues from its U.S. operations. In the coming year, after opening offices in New York and Los Angeles, the company plans to establish branches in Europe.

“To become an expert in your industry and thrive, you need to be constantly informed, participate in events, network and be part of key associations.

– Patrice Marin, Co-founder



91%

of district m's revenues come from the United States

## RISK-TAKING THAT PAYS OFF

Patrice Marin says that, over time, he has learned important professional lessons related to the success of his company, but also on a personal basis.

According to him, it's also important to have a solid and unifying vision that allows you to surround yourself with people who share the same values and objectives, and to stay focused on your strategy despite industry fluctuations. Finally, he believes that it is necessary to trust in his corporate vision while taking calculated risks.



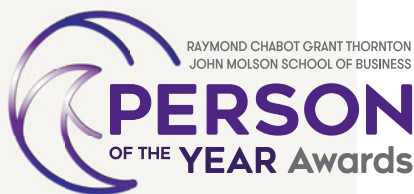
# Winner of the 2019 Person of the Year Awards

## GLOCAL category

**Patrice Marin** is the first recipient of the Person of the Year Award in the GLOCAL category. The winner of this category is an entrepreneur, owner or executive who has contributed to the development of international companies and has created jobs locally.

“To develop internationally, it’s important to have a good strategy and the best partner(s) to support you in this adventure.

– Patrice Marin, Co-founder, district m



The Person of the Year Awards, presented by Raymond Chabot Grant Thornton and Concordia University’s John Molson School of Business, celebrate local business people who play an active role in the development local leading-edge enterprises and the emergence of tomorrow’s talent.

### Who will be the headliners of the 2020 Person of the Year Awards?

Follow what’s happening with the latest edition of the contest by visiting [rcgt.com/awards](https://rcgt.com/awards).