Strand A

Taking Canada's Ability to Serve Global Customers to the Next Level

The key to a successful business is generating sales from customers. For a country like Canada with a small domestic market, serving customers outside the country is essential for business growth. This strand explored the importance of global customers to Canada's innovative firms and what cultural and attitudinal changes are needed to enhance Canada's reputation and performance in providing innovative solutions to the world.

(*in order*) Bogdan Ciobanu, Lisa Crossley, Matthew Saunders, Julie Pottier, Alison Sunstrum, Karna Gupta & Jeff Crelinsten

(*in order*) Julie Pottier, Lisa Crossley & Matthew Saunders

Strand A, Panel 1

Creating a customer-focused mindset

Moderator: Julie Pottier, VP, Commercial Market & Small Business, EDC
Lisa Crossley, CEO, Moseda Technologies Inc.
Matthew Saunders, President & Managing Director, Ryerson Futures

Revenue from sales is the best source of financing for any company. Customer-facing skills are essential for success in commerce. How can students acquire these skills and experience during their postsecondary education? How can Canadian start-up and early-stage firms in knowledge-based sectors develop a strong focus on customers? How can industry, government and academic leaders break out of their respective silos and together shape a culture that embraces a customer-focused mindset in knowledge-based sectors of Canada's economy?

Pottier jumped right to the primary issue at hand, namely why it is so important to focus on customers. Crossly gave some background on herself and her business to explain how she came to be so customer-focused, beginning with an account of the roller coaster rides she has endured with various IPOs.

"They're your revenue drivers. Without them you don't have a company. It's critical that you identify a customer for your product," she said, adding that this is even more important than the technology behind the business.

Saunders began with a similar story of moving through different companies and ultimately working with Ryerson Futures. His role there is to help entrepreneurs with technology that seems to solve problems in front of customers, in order to determine

whether or not it actually meets their needs. By way of example, he recalled working with a company that generates electronic receipts for retailers, providing line-item information about a purchase on the purchaser's bank account.

Pottier responded to that example by asking who is the customer, given that there are many different types of potential customers. Crossley argued that the ideal customer was the one with the greatest need for your product or service; the ultimate buyer may require a middleman of some sort.

"A lot of companies don't do that early on, figure out who will be my best customer," she suggested, referring specifically to customers who are the most motivated and will pay the quickest. In the case of health care, this can mean getting buy-in from front-line staff, as opposed to trying to get hospitals to use a system they do not want to use.

"You have to really understand the dynamics," she said, admitting that they are rarely simple.

Saunders suggested that changes to government policy, which would make it the first customer for many innovative technologies, would be of great benefit for many start-ups.

Poitier then asked about the downfalls of being customer-focused. Saunders insisted that you cannot focus on just one customer, no matter how preferred.

Crossley warned that forced validation by going through friends or biased observers will not help the cause. She argued that "fail fast" seldom happens, even though it is important to do so.

Poitier asked about how this approach changes when you begin to market globally. Crossley said channel partners are crucial in many parts of the world, such as places that would not do business with a woman. Local knowledge and interpersonal relationships are critical and setting up a sales contract can be protracted process, but once completed it is extremely valuable.

Saunders agreed that global marketing is a time-consuming process but the right partner can make everything work, offering the example of Starbucks teaming up with Tata. That being said, Poitier pointed out the importance of making sure that you do this for yourself.

Crelinsten addressed the question of scale with the panel. "I've encountered entrepreneurs who understand customers to a certain extent, but they'll say 'I'm in a sector that's a $50 billion world market. If I can get one per cent of the market, I have a

good business.' And of course that's not true. So for Canada, which is a small country that doesn't have a big domestic market — yet as David was saying you have to have an export strategy for an innovation strategy — is it the right strategy to pick a niche where the big players won't play because it's too small for them, but you can really have a good business if you're number one in the world."

Saunders replied with the example of a medical technology business that started into a $30 million market that was deemed by most to be too small to be worth the trouble; nevertheless, over the next 10 years the firm thrived as the leader in this market and was eventually sold to Siemens for $450 million. "There's not one answer to the question," he said, noting that markets for unprecedented products or services — such as those spawned by new technology — could represent the same kind of opportunity for growth.

Crelinsten pressed the point: "Did he sell to Siemens because he had picked a market that was too big for him to handle or could he have grown a $1 billion Canadian Company." Saunders noted that the firm had gone public in order to finance the company early on. "With the Canadian laws, once it's in play he had no way to stop it. That's what happened. He did not want to sell, but he was forced into it."

Crossley offered her own example of a small business that did very well by dominating a specific market. "Niches can be big enough for you to really build a business in, or they can be something that gives you a foothold in the space and also you can expand into the broader market," she said. "I don't think there's a right or wrong in terms of going after a niche, it just depends on what your goals are for the company." She added that it can also be important to get into such market first so that your role is unique, perhaps getting out before much larger interests move in to copy what you are doing. "That's just something you have to discuss with your board and investors. What are they looking for? Is it a lifestyle company, is it a $200 million company, is it a $1 billion company?"

Jeffrey Dale asked about mentors, specifically those who may have helped with building an export business. "More importantly," he added, "do you have any ideas for how we scale that up in terms of increasing the number of mentors who have that experience to help more companies?" Saunders offered the example of an imaging app for doctors, which involved sharing pictures of patients for consultation and diagnostic purposes, something that is expressly prohibited in Canada. However, India has no such restriction, and once the app was marketed there it was quickly and widely adopted in the medical community. The key, he stressed, was having a mentor who understood the country where you wanted to begin this marketing process. Crossley acknowledged that she has spent much of her career assembling a network of just such mentors who have greatly assisted her. "In the US I found there was a real entrepreneurial ecosystem and you always knew someone who could connect you with the right people," she said. "It's

much harder here. So I definitely try, as someone who's been around in the entrepreneurial community for a while, to reach out to younger entrepreneurs and help out." She added that start-ups looking for funding should also asked if their investors are likewise bringing in the advantage of this kind of network of mentors. "I've been ruthless about refusing investors who just bring money. You really want investors who have global contacts, who can show you who they could introduce you to if they come in and are members of your board."

Pottier added that EDC can help in a more formal way in matters of expanding a business into another country, such as the kinds of cultural practices that accompany contract negotiation. "Usually the best advice is from people who have gone into a market and it hasn't worked," she said. "This is where you really learn. And our experience has been that companies want to share this, they don't want the next company to go through the same pain."

Pottier asked about the role of sectors with respect to customers. Crossley described her knowledge of health care products as being premised on how these items are sold. "Depending on the sector it plays into your sales cycle."

Pottier asked about the kinds of incentives that could be provided to get start-ups off the ground. They returned to the idea that the authorities in a medical system could be the first buyer for local technologies, as happens in many European countries. Saunders argued that a tax incentive to large companies for taking products from start-ups would also be effective.

Pottier asked about what kind of training could be offered to students in order to ensure that they're prepared to enter into this kind of entrepreneurial environment. Saunders maintained that it is important to pass this kind of understanding on to people in any kind of program where they might become part of a new enterprise. "Giving students exposure to entrepreneurship benefits all of us," Crossley insisted.

A member of the audience asked for recommendations about finding customers internationally. Saunders replied that it is important to determine if that market is the right place to go first. "It's about customer traction. The money will come." University-based spin-offs with IP requirements can complicate the buy-in, he added, but where there is a much easier tech transfer program it works very well. Crossley insisted that McMaster and Waterloo, for example, have some of the most sensible royalty arrangements in this regard.

Sandra Noel, from Innovation, Science, and Economic Development Canada, asked about the role of crowd-sourcing initiatives as a means of connecting with customers before you have even finalized your product development. Saunders suggested that this approach would work for a subset of businesses, especially if what you are doing is

easy to demonstrate and grasp, such as some kind of drone-based activity. "But if you're building some SAS-based solution, that's not going to work," he said. A further risk is the sheer number of people who might ultimately be involved in your business. "It can become a challenge in future rounds of financing when you're trying to grow and scale the company and you have 1,000 people that own 5% of your company," he warned. Crossley included her own warning about the sustainability of a business built entirely around customer expectations. "Customer-focused mindset is really important but it's one piece of the puzzle."

Rory Francis of the PEI Bioalliance asked about Saunders' critique of university spin-off technologies, looking for an example of an SME that had risen above some of these challenges. Saunders suggested that examples could be found at the Biomedical Zone [http://biomedicalzone.ca], a medical technology incubator program established by Ryerson University and St. Michael's Hospital in Toronto, which is located within the hospital itself. However, Crossley doubted that the clinicians in the hospital were qualified to offer the appropriate business savvy. "That's the blind leading the blind," she said, insisting that too much technical talent in the administration of a company is a sign of trouble.

(*in order*) Bogdan Ciobanu, Alison Sunstrum & Karna Gupta

Strand A, Panel 2

Going global

Moderator: Bogdan Ciobanu, VP, IRAP & Small Business Innovation, NRC
Karna Gupta, President & CEO, ITAC
Alison Sunstrum, CEO, GrowSafe Systems Ltd.

A small country like Canada needs trade in order to survive. We have gained an advantage through global demand for natural resources; however, in order to thrive in knowledge-based sectors of the economy, entrepreneurs need to accurately identify global needs and quickly develop superior solutions. What are the ingredients for success in global knowledge-based commerce? How do Canadian innovators access global value chains and global innovation networks? How can government policy help or hinder Canadian firms from accessing global customers?

Ciobanu began by noting that Canada's economic success has been premised on exporting goods, but this trade has been diminishing in real terms to become the third-worst performance amongst 34 OECD countries. This raises the questions of why this has happened and how companies can overcome this problem by moving into international markets.

Sunstrum began by commenting on how terrible it has been to be an entrepreneur and her company went international because it was impossible for them to do business in Canada. Her own daughter, ex-military, said working for the company was harder than war. "Running a company anywhere in the world means you must address multiple markets." Among the bright spots has been a partnership with IBM Canada, which has been building networks with smaller firms like hers.

Gupta pointed out that most of Canada's growth focused on US trade, as opposed to the emerging markets where most of the world's economic growth has been occurring. He also reiterated the early insistence that government procurement policies pale in comparison to what is happening elsewhere in the world. Similarly, there needs to be more support to help companies overcome the many hurdles that are involved in entering other markets. This is often why smaller companies get bought early, which means entrepreneurs never acquire the experience necessary to grow and run any kind of larger enterprise.

Ciobanu asked for solutions to the procurement problem. "We're really slow to adopt new technologies in Canada," said Sunstrum, adding that this trend is exacerbated by the excessive cost of capital in this country. Gupta argued that access to capital, markets, and talent are essential to success, and capital is the key stumbling block as companies become larger and exceed the size of a start-up. Another problem they identified is the IP regime, which is poorly developed, along with a Canadian lack of the expertise necessary to sell products.

Sunstrum disagreed with this assessment about talent; she argued that the reason it is not being developed is that there are few companies able to employ it, so people go elsewhere. "We're not developing strong enough companies that can keep that talent employed." Gupta politely disagreed, then returned to the fundamental challenge of access to capital.

"We need to have the Canadian government be a lot more entrepreneurial," said Sunstrum, recalling the difficulty in mounting a Webinar with a federal department. Such opportunities are crucial to showcase Canadian firms to larger enterprises that could become partners, such as the PEI BioAlliance.

A question from the audience asked why there had been no mention of Foreign Affairs or Trade Commission Services. Gupta indicated that they do use these services, but it needs to be made more consistent. Sunstrum's experience was less positive, as she has not found the information she needed after going to another country. "I would really like to see people give me advice before I go into a country," she said.

Freedman asked about the basic challenge of moving from becoming a small company with a local market to a larger company with an overseas market. "How does a company move from a domestic focus to an international focus?" Sunstrum replied that this is not just a matter of flying there to meet people, but that is all they have been able to do and it is difficult. "That is probably one of the toughest things we do," she admitted.

Gupta pointed out that international trade often calls for in-country agents, especially in places like the Middle East. "To start, you really have to fly there all the time," he said, adding that it is matter of doing your homework in advance and finding mentors in order to understand culture as well as laws. You need to find people who have done business internationally and are now mentoring.

Doug Barber noted that his company Gennum was established with no Canadian customers, which meant going into many different countries. After telling some tales about the challenges they faced he concluded that it is not a simple game.

Ciobanu asked about policy changes that might help. Sunstrum pointed to investment rules, specifically a means of rewarding investors for supporting Canadian enterprises. "If we want to be an innovative nation, research and development expenditures are where we start."

Gupta pointed out that regulations around stock options are crucial, as this is the currency used to reward employees and investors in enterprises that have no cash. He added that similar kinds of incentives are needed to harness knowledge in a knowledge economy.

Freedman asked Ciobanu what IRAP can do in this context. He replied that IRAP is working with Global Affairs Canada, delivering various international programs.

Rory Francis pointed out that some key measures, such as the ability to provide executives with stock options, are hard to gain approval in Canada. He asked why governments fail to understand the value of these policy initiatives. Gupta offered the example of health informatics, which often fails to gain pick-up because of Canada's own internal disparities (i.e. provincial control of health care). "Big ideas don't come to fruition."

Sunstrum blamed it on a national inferiority complex, which can be contrasted with the aggressive behaviour of countries like Ireland or Australia. "You definitely have to get out there and sell it."