



LAVAL TECHNOPOLE International Business Centre

INTERNATIONAL NEWSLETTER



SUMMER 2011

Well-ordered **diversity** begins with oneself

Since 2008, RTI-Claro has made Laval its home, where it has extended its premises to diversify its portfolio, increase its output and broaden its markets and key suppliers. It now successfully manages production that stretches from America to Europe and Asia.

New alliance

Founded in 1966 and originally known by the name of Claro Précision, the company became a subsidiary of the U.S. company RTI Metals International in 2004. Since then, RTI-Claro has modified its market niche by adding titanium to its production. The company specializes in machining aluminum and steel parts and assembling airplane and helicopter components for industry giants such as Boeing, Bombardier and Bell Helicopter, among other activities.

Above all, with its expertise in commercial aeronautics, RTI aims to offer its services to new customers in the aerospace, defence and energy industries.

Smart supply chain

It goes without saying that its merger with the U.S. company is producing additional revenue and has given it much greater purchasing power. The parent company's support has allowed the Laval enterprise to keep increasing its international sales, not to mention the fact that the transportation agreements negotiated with the American company are much more advantageous and deliver substantial savings. However, in order to integrate harmoniously, RTI-Claro has had to change its practices to some degree, especially in resource management.

"Implementing an Enterprise Resource Planning system has made it possible to unify a whole range of business processes and efficiently manage more complex products and services," says RTI-Claro's Managing Director Christian Sauvé. "This in turn allows us to stay at the top of our industry, maintain our competitive advantages and structure our international supply chain and business. What's more, the integrated management processes in the ERP system make it possible to set up performance indicators, such as quality control and complex tracking of materials and products."

Certainly, this aspect of resource management is crucial because the various components are produced in plants scattered pretty much around the world before being sent to customers. Another feature is that RTI-Claro's procurement chain is based on "lean manufacturing" principles. This method is aimed at structurally eliminating wasted time and resources so as to increase the company's profitability, shrink timelines and improve quality. It means smart management, reacting fast to customer requests and eliminating overproduction.

Continued on the following page

Message from the Director



To inform your summer thinking, the **LAVAL TECHNOPOLE International Business Centre** offers you some diverse, highly engaging reports in this issue. The Laurentian Bank gives you a thumbnail analysis, explaining in large part the fluctuations in commodity prices. Jolicoeur Lacasse talks to you about entirely legal tax havens that allow you to maximize profits based on sound analysis. Lastly, the International Business Centre sets out the four Ps—people, products, presence and perseverance—of emerging-market development.

Along with that, RTI Claro opens its doors to give you a glimpse of its internationalization strategy and, in particular, its supply chain management. As one of Greater Montréal's flagship companies, it certainly knows how to inspire!

I would like to take this opportunity to return to the EDC spring export forecasts that were presented during the Let's Talk Exports conference, held for the first time in Laval on May 31. The fact that market diversification efforts implemented by Canadian companies in recent years are beginning to generate results was underscored. Indeed, EDC forecasts that Canadian exports will see strong growth over the next two years, while the percentage of exports from Canada bound for the United States will continue to decline in favour of emerging markets. Thus, the next few years ahead are quite exciting for our exporters.

Happy reading and, above all, have a great summer!

Véronique Proulx



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In Laval to stay

Not only is Laval a strategic base for RTI-Claro, but the company also benefits from the support of the **LAVAL TECHNOPOLE International Business Centre**, especially its supply chain training and coaching program

“International Business Centre Program is a very good overview of all aspects of supply chain management,” says Mr. Sauv . “It’s a solid, generic training that addresses all types of industries. What particularly caught our attention were the Incoterms modules, the official rules of the International Chamber of Commerce (ICC) for interpreting commercial terms. This valuable information has allowed us to better manage and minimize business risks.”

RTI-Claro also employs more than 200 workers who participate in the success of the company each day. No doubt the skills and competence of its people and its sound supply management will allow RTI-Claro to continue its international drive, maintain strong relationships with its customers and ensure that its projects come together.

Lastly, let’s note in passing that at the prize-giving ceremony for the 2011 STIQ Awards (*Sous-Traitance Industrielle Qu bec*) on March 23, RTI-Claro received the “Overall Performance” award, as well as being a finalist in the “Production Management” category.



To learn more about RTI-Claro, please contact Christian Sauv , Managing Director, at 450 786-2006, or visit the company’s Web site: www.rtiintl.com.



The RTI-Claro plant, expanded in 2008 to support its market diversification.

Tax havens: a real *legal* advantage for international marketing

Your company is looking to expand in a big way—into Europe, for example. You also see the need to set up an organizational structure closer to your customers. So why not consider creating an offshore international marketing company?

Clearly, this type of enterprise is the preferred choice of operators who want to defraud the taxman, hoping to hide their profits in an offshore wrapper. However, it is possible to have a real, legitimate, legal offshore marketing company, provided it complies with the tax treaties signed by Canada and with Canadian and international tax laws.

Ideally, you need to select a country that isn’t on Canada’s black-list or greylist and has ratified an information sharing agreement with Canada. These agreements aim to track tax fraud, with the offshore company cooperating in court action in some cases. Luxembourg, Cyprus and now the Turks & Caicos Islands are some examples, among others.

However, for a company complying with the law and declaring its worldwide earnings, routing international operations through an offshore country allows it to repatriate untaxed dividends in that country back to Canada. Moreover, the tax rate in offshore countries, where the international transactions are carried out (European sales, for example), is considerably lower than in Canada. You can therefore make real tax savings, and it is completely legal.

Our team of columnists:





Blogger's corner

The four Ps of foreign market development

Last November, Miles P. White, chief executive of Abbott, an American pharmaceutical and medical products company, wrote a very interesting article in the *Wall Street Journal* in which he proposed his own version of the four Ps of marketing (product, price, place and promotion) adapted to foreign market development, more specifically, emerging markets. In his revised version, the four Ps become people, products, presence and perseverance.

According to White, people need to come first. In emerging markets, because of major cultural and language differences, you have to hire qualified local labour. Gone are the days when overseas operations could be run exclusively by expats. To succeed in an emerging market, you have to be able to find and recruit local talent. For an SME, this usually means choosing a local partner very carefully—i.e. not simply the first person who comes along—because this person will be the intermediary between your company and the market.

The second P is offering the right product for the market rather than trying to push an existing line. The product must match the market's needs. This may mean, for example, offering a simplified, cheaper version of a technological product, a generic drug or a new flavour in the case of a food product. White cites the example of Pepsi, which created products specifically for the Chinese market, such as cucumber-flavoured Lay's potato chips. Because not all SMEs have the resources to adapt their product to each target market, I would add that companies should carefully study the markets before venturing in and prioritize the ones where they believe their products would be best received.

The third element is presence. Having a physical presence in the country brings you closer to your customers, allowing you to better understand their needs and to respond faster and more directly. For an SME, this usually means finding a good local partner. Even with the right partner, however, you will still have to go there regularly to maintain relations with customers and partners.

The fourth element is perseverance or, in other words, long-term commitment. Establishing a new business or marketing your products in an unfamiliar environment is no small task, particularly if your brand is not well known. You must therefore plan for the long term and expect adversity, especially in the beginning. A rule of thumb is that it takes two years to reach profitability in a new market, and that's if you really invest yourself in the project. While not set in stone, this is a fairly realistic estimate.

White rightfully concludes that the hard part is not being present in each market but being a citizen, which demands a real commitment and involvement in the community. In many countries, especially emerging ones, this conclusion is all the more pertinent since tremendous importance is placed on personal relationships. You must therefore be prepared to become personally involved in the local business community and prove that you are worthy of trust. Once you have achieved this, anything is possible.

Source: Miles D. White, "The Four Ps of Global Business Expansion", *Wall Street Journal*, November 12, 2010.

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All that glitters is not gold!

Since the beginning of 2011, we have seen the price of silver leap 50%, gold has hit a new historic high of over \$1,500 an ounce, and oil has climbed past \$110 a barrel again. And the same thing has also been happening to other commodity prices, such as cotton (+24%), corn (+21%), steel (+40%) and cocoa (+47%), to name just a few. Why all this effervescence?

It's the logical result of the currency war we were talking about last autumn. Let's start with the following facts: Europe and the United States represent 50% of the global economy, 45% of trade, 45% of all market capitalizations and 80% of global currency reserves, but these regions account for only 10% of the world's population and, in fact, are shrinking demographically. Now, let's consider that European countries are being berated one by one for their debt, and the United States has just been given a serious warning by Standard and Poor's that it is considering downgrading Uncle Sam's AAA rating. So there we have two debt-laden and economically weakened economies that do not offer much growth potential for the next 20 years. Add in Japan, which is frightening, a Middle East in flames and emerging countries like China and Brazil that don't want anyone messing with their currency. The table is set for a strange scenario.

Investors who believe that the planet's future lies in the hands of emerging countries (with good reason) and want to profit from the boom in their coming growth are positioning themselves by accumulating contracts on foodstuffs that will be in demand in this dream future.

Now, you need to know the difference between real demand and speculative demand. Today, it's speculative demand based on demand that may prove to be real in several years if nothing thwarts the projects of the parties involved. However, you need to be careful: this isn't the first time that this type of scenario has occurred. In 2008, the price of oil reached \$140/barrel before collapsing by \$35 in less than six months.

Meanwhile, we need above all to look at the impact on finished products, because—consumers that we are—we know that once retail prices have climbed, they don't come down again.

It's important to maintain a steady strategic course and not get caught up in speculative movements. However, it's also important not to exclude an unexpected scenario that may well last. If in doubt, talk to a specialist.



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Intellectual property can also sometimes be transferred to a foreign company to achieve tax savings over time. But this can also result in adverse tax consequences upon transfer to Canada because the Canadian company subsequently has an asset whose value is more difficult to assess with certainty. Therefore, you should consider the tax consequences carefully.

And don't forget that in any case, the company must have real operations in the country in which it's based. It can't simply be a smokescreen, as that will invalidate any tax planning. Thus, there are costs associated with forming an offshore company, as well as the cost of its operations, which you need to take into account. Ultimately, they will influence your decision to create such a structure or not. You also need to consider the administrative complications that such a structure involves.

Once again, in an international business world, this is a solution that a company needs to analyze and consider in terms of its short-, medium- and long-term implications. In the end, it could well maximize your profits!

Our team of international tax and business experts is ready to guide you through your strategic thinking in these matters.



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