

How a growing number of tiny Canadian-based start-ups are making the leap into big foreign markets

Erica Alini

Ray Newal needs few words to describe his first attempt to conquer the Indian market. "What ended up happening," he says, "was . . . nothing."

The 35-year-old entrepreneur is the co-founder of Jigsee Inc., a Canadian start-up whose technology enables video streaming on older model cellphones and shaky networks. India, he says, where mobile subscribers number 800 million but only a privileged few have BlackBerrys and iPhones, looked like the perfect target market. But a first attempt to reach out to consumers by partnering with a Mumbai-based powerhouse quickly fizzled.

Months after Jigsee teamed up with Hungama Digital Media Entertainment, the world's largest distributor of Bollywood and South Asian entertainment content, in 2009, Newal knew something was wrong. It took a move to India to find out that Hungama was trying to pitch his company's technology to high-end smartphone users, who plainly didn't have as much need for it. "That," says Newal, "is when the awakening occurred."

Newal realized Jigsee would need to have its own boots on the ground in Mumbai and go it alone. Today, the company counts 25 employees and two headquarters--12,000 km apart. Newal heads the marketing team in Mumbai, while co-founder Areef Reza, 40, oversees software developers in Ottawa. The arrangement involves some awkward routines to work around the time difference, but so far the duo has made it work.

Set-ups like Jigsee's are a growing model among Canadian start-ups, says Benson Honig, a professor at McMaster University's DeGroote School of Business. Honig calls these businesses "transnational enterprises," which he says are out to capture market potential abroad while preserving the advantages of home.

Sometimes, says Howard Lin, a professor at Ryerson University's Ted Rogers School of Management, going abroad is the only way to find markets large enough to sustain growth. That was the case for Polar Mobile, which helps media outlets design smartphone and tablet apps. Founded in Toronto in 2007, the development shop already makes 70 per cent of its revenue abroad--as much as 50 per cent of it from the U.S., where it was hired by top brands such as Bloomberg Businessweek, CNN, and Vogue. "Canada is a great market to pioneer a product," says Polar CEO Kunal Gupta, "but not big enough to grow a business." Currently setting up in San Francisco and New York, Polar Mobile is planning to incorporate in the U.S. in the fall.

Start-ups that decide to focus on foreign markets often feel the need for a physical presence in the country, in part to understand the needs of their new customers. Danny Wang is a Chinese-born entrepreneur. He founded WeblishPal, a one-year-old Toronto-based start-up that offers English-language training by connecting Chinese students with native speakers in Canada and the U.S. through online video calling. Even with Wang's background, the company still needed to rely on a team of marketing experts in China to map the market and reach out to potential clients, says WeblishPal co-founder Barbara Tassa. Local sales personnel who can actually shake hands with customers are also key, says Wang: "When people in China buy something new, they're used to face-to-face contact."

Keeping a close eye on faraway operations is another reason to have a physical presence abroad--particularly at the start. For Jigsee, that meant Newal had to relocate. Especially with a start-up, where workdays are long and the future uncertain, it's important to have the company's founder "lead through the tough time," he says. Being there shows the local team that the founder is personally invested in the company and reduces the high turnover that can be a headache for early-stage businesses.

Cultural differences can provide surprises that would be difficult to deal with from far away. In India, for example, "people by and large don't like to say 'no,'" says Newal. As he learned

when discussing strategy and assigning tasks in Mumbai, "yes" didn't always mean "yes." To avoid getting lost in cross-cultural miscommunication, he hired Indian managers who had experience working with exporters and foreign companies and would be able to act as intermediaries between himself and the workforce.

Yet for all the lure of foreign lands, there are many good reasons for Canadian start-ups, especially in the technology sector, to keep a presence in their homeland as well. Some companies worry about leaving behind their network of contacts of other Canuck entrepreneurs, bankers, investors and incubators. Reza says Jigsee benefited from being able to tap into Canada's vast pool of software engineers with a knack for creative work. "It's much easier to sell people on an idea in Canada," he says, adding that top-notch developers here are more likely to embrace the challenge of an embryonic project that requires as much technical wizardry as imagination. In India, by contrast, an R & D workforce trained to carry out specific, well-defined tasks may struggle with unstructured work.

Invariably, though, the first reason tech start-ups give when asked "Why Canada?" is the tax breaks. Canada is one of the world's most generous countries in terms of R & D tax policy, according to the OECD. A small private corporation in Ontario, for instance, would typically earn about \$73,000 a year in tax credits on \$100,000 of expenditures in R & D, according to Bruce Braithwaite, president of Braithwaite R & D Tax Credit Consulting Group, which works with businesses in Canada, the U.S. and Britain.

For small Canadian companies, capturing opportunities abroad while preserving these homegrown advantages is a balancing act. Trevor Doerksen, CEO of Mobovivo, a Calgary-based video app developer, says simply: "Over-communicate, overstate and oversimplify." With small teams working remotely, he says, one must be extremely clear about objectives and roles, and frequently verify that everyone is clear on who is managing a project and what criteria are used to tell when a project is finished. At Jigsee, that means Reza calls the Indian team from Ottawa every day before going to sleep so that, 9½ hours away, they "start their day totally on the ball," he says.

Doerksen also feels employees should meet their foreign colleagues sooner or later. "Names don't mean much to people," he says, "faces do." That's why Mobovivo organizes a couple of company-wide get-togethers every year, usually on the sidelines of industry conferences.

Another common tip: don't cheap out on the hiring process. GreenMantra Recycling, a Toronto-based start-up that's found a way of converting plastic waste into industrial waxes, plans two or three rounds of in-person interviews for each new employee. New hires will meet every one of the company's three partners, says founder Pushkar Kumar, whose company, after piloting in India, is planning to incorporate in the U.S. in the next year. Flying in job candidates is expensive and time-consuming, he says, but hiring the wrong person could turn out to be much more costly for a geographically spread-out company with a small head count.

Numerous plane tickets are also worthwhile when considering where to locate an office abroad. Aiming to tap into California's software industry, Mobovivo initially thought its U.S.-based office would have to be somewhere in Silicon Valley. The company started renting space at an incubator in Sunnyvale--a 10-minute car ride from Google's headquarters--only to find out that "the city where young developers want to be is San Francisco," Doerksen says.

Trial and error, though, is as much a part of starting a new company as 12-hour workdays. And when a business stretches halfway across the world, the learning curve can be steep. Nevertheless, growing ranks of entrepreneurs, it seems, are up to the task.

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