

“Up Our Game, Canada” Module 2 Transcript: Five Strategy Types for Canadian SMEs

Good day, I'm Dr. Tony Bailetti from the Technology Innovation Management program at Carleton University's Sprott School of Business. Today, we're addressing a critical challenge facing Canadian businesses: SME Strategies to Confront U.S. Tariff Threats.

Let's dive right into the root of the problem. President-elect Donald Trump has proposed a 25% tariff on Canadian imports. This isn't just a number; it's a significant shift that will impact small and medium-sized enterprises across numerous sectors. In 2023, 77% of Canada's exports went to the U.S., making the repercussions of these tariffs substantial. Unfortunately, these threats have become the new 'normal' in our business environment.

Now, let's look at the problems these tariffs pose for Canadian SMEs. First, there's our heavy reliance on the U.S. market. This dependence makes SMEs especially vulnerable to any disruption caused by tariffs. Secondly, we face the risk of losing both revenue and customers. When tariffs push up prices, our products become less competitive, leading customers to seek alternatives. Thirdly, supply chain and operational disruptions are inevitable as tariffs increase the cost of inputs from the U.S., forcing a reevaluation of sourcing, logistics, and production. Fourth, adapting quickly to these changes is not easy, building new supplier networks or sales channels takes time and resources. Lastly, SMEs have limited resources and influence compared to larger corporations, making it tough to navigate or sway trade policy changes. Here's another challenge: For many of you, the U.S. isn't just another market - it's THE market. When 77% of our exports go south, a tariff isn't just a cost increase - it's a threat to your company's survival. And unlike the big corporations with their teams of lawyers and consultants, you're handling this with limited resources. You're making tough decisions with limited information and even less influence over these policies. The deck might seem stacked against our smaller businesses. But remember - in every challenge lies opportunity. And that's exactly what we're here to discuss.

Here's some context to consider: Tariffs introduce unpredictability into costs, sourcing decisions, and how we strategize. They affect valuations, investment decisions, and even cross-border deals. These are not just economic levers but political tools with wide-reaching consequences beyond trade itself. For Canadian SMEs, this means disruption and increased costs, particularly because they often operate with narrower supplier bases and limited resources while large multinationals might find ways around these burdens. The sectors most expected to feel the pinch include automotive, manufacturing, retail, electronics, and healthcare devices. Remember, the Canada-U.S. relationship is deeply interdependent, making any response or negotiation complex. Here's what makes this situation particularly complex: these tariffs don't just affect costs. They reshape company valuations, alter investment patterns, and complicate cross-border relationships. The challenge is real, but so are the opportunities for those willing to adapt and innovate. What we're dealing with isn't just a trade issue - it's a fundamental challenge to how Canadian SMEs operate and survive. The deep interconnection between Canadian and U.S. markets makes this situation particularly delicate.

I want to talk to you today about something that separates success from failure in business - having a real strategy. Not just reactions, not just isolated moves, but a complete game plan. Let me tell you what I mean by strategy. It's not about making one good move - it's about knowing your next five moves. When we talk about confronting these tariffs, we're talking about a structured approach that protects your business from every angle. Now, what makes a strategy worth its salt? First, it has to be something you can actually do - not just theory, but practical steps you can take tomorrow morning. Each move you make needs to solve a specific problem these tariffs create. Some of these strategies will give you quick wins - like financial hedging to protect your margins right now. Others are more like planting a tree - they take time to grow, like when you're reshoring your operations. Both matter. Here's something crucial I've learned: In business, you need two kinds of strategies. The first kind is like an umbrella - you open it before it rains. That's your proactive strategy, like diversifying your markets. The second kind is like a life raft - you use it when you're already in rough waters. That's your reactive strategy, like working to get tariff exemptions. But here's the real power move: Each strategy you choose isn't just one tactic - it's a whole toolkit. Take tariff engineering, for example. That's not just about reclassifying your products. It's about rethinking your warehousing, maybe even redesigning your products. Remember this: The size of your business doesn't determine the size of your thinking. Even as an SME, you can implement strategies that were once thought to be only for the big players. Crucially, a strategy should be broad enough to include multiple tactics. For instance, under 'tariff engineering', you might see actions like product reclassification, use of bonded warehouses, or even redesigns of products.

In my years of working with businesses, I've learned that success often comes down to having the right strategy at the right time. Today, I want to share with you five distinct approaches that can help your business navigate these tariff challenges. First, let's talk about short-term cost reduction. This is like finding shelter in a storm - it's what you do right now to protect your business. You need quick solutions that can offset these tariff impacts immediately. Second is market diversification. You know, it's an old saying - never put all your eggs in one basket. Yes, the U.S. market is important, but there's a whole world of opportunities out there waiting for Canadian businesses. The third strategy takes more patience - long-term adjustments. These aren't quick fixes. They require investment, careful planning, and time. But when done right, they offer solutions that last. Fourth, we have collaboration and advocacy. In business, sometimes the best way forward is together. When small and medium businesses join forces, their voice becomes harder to ignore in trade policy discussions. Finally, there's value addition and differentiation. This is about making your product so good, so unique, that customers will stick with you despite higher prices. It's about being irreplaceable in your market. Each of these strategies serves a different purpose, and each might be right for different businesses at different times. The key is choosing the one - or the combination - that best fits your situation. They're about positioning your business to thrive by adapting proactively to these new economic realities. Remember, the key is in the implementation. Each strategy must be tailored to your business's unique situation. Let's equip ourselves with the knowledge and tools to not just face these challenges but to turn them into opportunities for growth.

Now, let's delve deeper into these strategies, because each one offers specific tools you can use right now. Let's start with something every business owner needs to understand - managing your costs in the

short term. When you're facing a 25% tariff, your first instinct might be to panic. But let me share something I've learned: The first moves you make often determine whether you sink or swim. Let's talk about immediate actions that can help you stay competitive. Start with your U.S. buyers. Sometimes, the direct approach works best - pass the tariff costs to them. But here's the key: Don't just send a notice. Sit down with them, show them the numbers, work out terms that make sense for both sides. Remember, they need your products as much as you need their business. Now, here's something many businesses overlook - financial hedging. Think of it as buying an insurance policy against cost fluctuations. Futures contracts can lock in your costs, giving you breathing room to plan your next moves. There's an interesting opportunity right now: Some U.S. importers are stockpiling inventory. They're looking for reliable suppliers who can deliver before tariffs hit. That's your window of opportunity. Sometimes, you might need to take a short-term hit to your margins. It's like holding your breath underwater - you can do it for a while if you know you'll come up for air soon. But while you're doing that, look into R&D tax incentives. They can offset some of your tariff-related costs. Here's a tactical move many miss: U.S. bonded warehouses. Store your goods there, and you don't pay the tariff until the sale is final. It's like having a pause button for your tariff payments. The key to all of this? Speed. These aren't strategies you can sit on. They need to be implemented quickly, but thoughtfully.

Key takeaways for short-term cost reduction include the importance of pricing flexibility and negotiation with buyers. SMEs should look for opportunities to share costs with U.S. partners, adjusting pricing according to market conditions. Plus, don't overlook the potential of government incentives and financial tools like bonded warehouses for temporary relief from these tariff costs. These strategies can provide the breathing room SMEs need to navigate through immediate tariff challenges. It's about smart, strategic adjustments that keep your business afloat and competitive in these turbulent times.

Moving on to our second strategy, let's explore how diversification can be your shield against tariff threats. Let me share a principle I've seen proven time and again: When one door starts closing, you don't try to force it open - you look for other doors. And right now, there are more doors open for Canadian businesses than ever before. Think about this: While we've been focused on the U.S. market, Canada has built powerful trade relationships worldwide. Those free trade agreements - CETA and CPTPP - they're not just papers signed in distant capitals. They're your tickets to tariff-free markets across Europe and the Pacific. Now, here's something interesting about today's business landscape: You don't need a physical presence to reach customers anymore. Platforms like Amazon and Shopify have changed the game. They let you sell directly to U.S. customers, often bypassing traditional import channels altogether. But sometimes the best opportunities are right in your backyard. The Canadian market - it's stable, it's growing, and most importantly, it's yours to claim. Build your brand here. Partner with local retailers. Make your mark in your own neighborhood before looking abroad. Here's a secret many miss: Government contracts. While everyone's looking abroad, these opportunities often go unnoticed. They're designed specifically to help businesses like yours succeed. And let me tell you something about digital presence - it's not just about having a website anymore. It's about being where your customers are, whether they're in Toronto or Tokyo. Your digital storefront is open 24/7, speaking every language, and reaching every market. Remember this: Diversification isn't just about survival - it's about thriving. It's about building a business that's strong not because of any single market, but because

it stands on multiple foundations. It's about seizing new opportunities to grow and stabilize your business in a changing global landscape.

Key takeaways for market diversification strategies: International expansion is vital for SMEs looking to counter U.S. tariff threats. Strengthening your domestic market share offers a solid fallback if U.S. exports take a hit. And remember, direct-to-consumer sales through e-commerce can bypass many traditional trade barriers, keeping you competitive in the U.S. market.

Let me talk to you about something crucial - long-term adjustments. You know what separates temporary fixes from lasting solutions? Time and commitment. These long-term adjustments I'm about to share - they're not quick wins, but they're game-changers. Let's talk about location first. Sometimes, being closer to your customers means moving your production. Yes, it's a big step. But think about it - no tariffs, shorter supply chains, better customer relationships. It's like moving your store from the back alley to Main Street. Now, technology - it's not just about having the latest gadgets. It's about using tools that make your operations leaner, smarter, more efficient. When you can't control tariff costs, you control everything else. Here's something particularly clever: tariff engineering. It's like solving a puzzle where the pieces are your product designs and customs codes. You can import components at lower rates, then assemble them stateside. Or you might reclassify your products under different HTS codes - legally and properly, of course. Let me give you an example. Say you're shipping a finished product that faces high tariffs. But if you ship its components separately under different classifications, then assemble it in the U.S. - that could change everything about your cost structure. Risk assessment is crucial here. You need to understand exactly how these tariffs affect your bottom line before making these big moves. It's like measuring twice before cutting once. And don't overlook partnerships. Joint ventures can give you the scale and resources to make these changes work. Sometimes, the best way to grow stronger is to grow together. Remember this: These aren't just changes to your business - they're investments in your future. They take time, they take money, but most importantly, they take vision.

So the key takeaways for long-term adjustments to note are: Structural changes in your supply chain provide enduring protection by reducing tariff risks through relocation and supplier diversification. Operational efficiency not only saves costs but keeps you competitive no matter the tariff landscape. And regulatory strategies can offer quick relief, but they demand ongoing attention and adaptation. Remember this fundamental truth: in business, just as in life, it's not the strongest that survive, but the most adaptable. These long-term adjustments aren't just about surviving today's tariffs - they're about building a business that can thrive regardless of what tomorrow brings.

You know, sometimes the greatest strength comes not from what you can do alone, but from who you stand with. Let me talk to you about the power of collaboration and advocacy. What I've noticed over the years is that the biggest challenges in business are rarely solved alone. And when it comes to trade policies and tariffs, this truth becomes even more powerful. Let me tell you about the strength that comes from unity. Trade associations and coalitions - they're not just meetings and membership fees. They're your amplified voice in rooms where decisions are made. When small and medium businesses speak as one, people listen. Here's something interesting, your U.S. counterparts are often facing similar challenges. They're paying higher prices for your goods, losing sales, dealing with supply chain

headaches. When Canadian and U.S. businesses join forces to push for change, that's a voice that carries weight on both sides of the border. Now, about tariff exemptions - this isn't something you want to tackle alone. Getting professional legal counsel might seem expensive, but think of it this way: It's not the cost of filing paperwork; it's the investment in potentially saving your business from that 25% tariff burden. And here's what I find most promising, when SMEs form alliances, they can achieve what none could do alone. Together, you have the power to negotiate better terms, to secure group exemptions, to make your case stronger. Remember this: In business, just like in life, the person who tries to do everything alone usually ends up doing very little. But those who know how to join forces - they're the ones who create real change.

Key takeaways for collaboration and advocacy: Joining trade associations offers SMEs a practical way to advocate for policy changes without incurring high legal costs. Cross-border collaboration is advantageous but challenging for SMEs unless they have established ties in the U.S. Lastly, legal and regulatory strategies like filing for exemptions are resource-intensive and might not be accessible for many smaller firms. Remember this: while you might not have the resources of a large corporation, you have something just as valuable - the ability to join forces with others facing the same challenges. That's not just smart business - that's strategic thinking at its best.

In my years of business consulting, I've learned that when prices go up, value becomes everything. And today, I want to share a fundamental truth, in a world of tariffs, being different - being better - that's your shield. Let's talk about innovation. When you invest in R&D, you're not just creating products - you're creating solutions that your customers can't find anywhere else. When they need what only you can provide, that 25% tariff becomes less of a deal-breaker. Here's a powerful strategy, instead of competing on price, compete on excellence. Add premium features. Offer customization. Bundle your products with services that your competitors can't match. You see, when you give customers more value, they'll often pay more for it. Now, let me tell you something special about being Canadian. Our reputation for quality, for trustworthiness - that's not just national pride, that's market value. Use it. Build your brand around it. Make it part of your story. But let me tell you something crucial, building brand loyalty doesn't always require massive investments. Sometimes, it's the small, consistent actions that build the strongest connections. It's about understanding your customers, delivering on your promises, and constantly reinforcing what makes your product special. And speaking of relationships - your partnerships with retailers and distributors aren't just about getting products on shelves. They're about creating a network that understands and can communicate your value proposition.

Here are the key takeaways for value addition and differentiation. In the short term, differentiation can come from customization, bundling, and branding. However, long-term strategies like R&D and domestic partnerships might not be immediately feasible for resource-limited SMEs. But remember, building brand loyalty can be very effective even without massive investments. Remember this fundamental truth, in business, as in life, it's not about being the cheapest - it's about being the most valuable. When you focus on value addition and differentiation, you're not just surviving tariffs - you're building a business that thrives regardless of market conditions.

Before we wrap up, let's consider some additional tactics and the robust resources we've assembled to support our strategy recommendations. These tactics can provide temporary relief but aren't solutions for long-term stability. While our five core strategies form the foundation, we have some additional tools worth noting. Financial instruments like futures contracts can help stabilize your prices and costs. And yes, you can leverage currency fluctuations to your advantage. Some businesses even find success by importing lower-tariff products and converting them in the U.S. - though this requires careful planning. While we're not covering mergers and acquisitions today, the strategies we've discussed give you practical, actionable steps you can take right now to protect and grow your business in the face of these tariff challenges.

Now, here's something valuable I want you to know, everything we've discussed today is backed by extensive research and resources. We've built a knowledge base of 40 detailed articles, 2 comprehensive slide decks, and 50 curated web links - all updated since 2019. That's 92 high-quality resources at your disposal. The path forward isn't about finding temporary fixes - it's about building lasting solutions. And with these resources and strategies, you have the tools to do exactly that. Updates to the database will occur regularly as new relevant findings and publications become available.

Here's an exciting roadmap of what's ahead. We're not just offering strategies - we're building a complete knowledge framework to support Canadian businesses through these challenges. Our upcoming modules are structured in five comprehensive chapters. Each one is designed to give you practical, actionable insights for navigating these tariff challenges. We start with detailed explorations of the five strategies we've discussed today. You'll learn exactly how to implement cost reduction, market diversification, long-term adjustments, collaboration efforts, and value addition in your business. Then we dive into sector-specific guidance. Whether you're in automotive, retail, manufacturing, or professional services, you'll get tailored strategies for your industry. But we don't stop there. We're bringing you academic insights specifically focused on Canadian SME exporters. This is followed by a deep dive into policy, economic, and geopolitical dimensions - from government perspectives to SME concerns. Finally, we'll look ahead - examining predictions, market implications, and the underlying tensions driving tariff policy. Think of this as your complete toolkit for not just surviving, but thriving in this new trade environment. Each module builds on the next, giving you a comprehensive understanding of both the challenges and the opportunities ahead. Remember, knowledge, when properly applied, becomes power. And that's exactly what these modules are designed to give you - the power to make informed decisions for your business's future. These modules are designed not just to educate but to empower Canadian SMEs to navigate these challenges with confidence. Stay tuned, and let's prepare together for a resilient future.

Let me leave you with this final thought, in the face of these tariff challenges, you have a choice. You can react to change, or you can prepare for it. You can see these tariffs as obstacles, or you can view them as opportunities to build a stronger, more resilient business. The strategies we've discussed today - they're not just theories. They're proven paths forward. But here's the real question, what will you do tomorrow morning? Because the difference between a strategy and success isn't knowledge - it's action and how well you execute them. Our team is ready to help you turn these insights into reality. The first step? That's up to you. Schedule a consultation with us. Let's develop a research-backed strategy

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tailored to your business - one that doesn't just protect you from tariffs, but positions you for growth. The future of Canadian business isn't just about surviving tariffs - it's about thriving despite them. And that future starts today. Will you be among them? Your business's future resilience begins with one decision and it's yours.