Canadian Digital Firms Going Global

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It is often thought that only large firms have the capacity to expand to multiple continents. At the same time, expanding to new markets is usually seen as a slow process that results in opening new offices. Both of these premises are challenged by our project for the 2019 CDO partnership.

Looking at data and strategies employed by Canadian firms in the digital space, we argue that it is often SMEs that manage to become 'global' – having presence in 3 or more continents. Furthermore, an interesting pattern in our dataset, which is a key focus of this study, reveals the 'followership model', meaning that some firms often follow each other in multiple markets. Lastly, an often overlooked growth model is mergers and acquisitions which have created some significant success for companies like Constellation Software.

The followership model and the strategy of coordinating a large number of (acquired) small companies around the globe are two aspects of trade that are not captured by current dominant views on the subject, therefore lacking government support. Our recommendation is to focus on these two strategies, measure their impact, and create programs that can educate and support firms in employing them.

Data on Canadian Global Digital Firms

The CanAsia Footprint dataset at the Munk School of Global Affairs and Public Policy indicates that there are 113 global Canadian firms and out of those 81 are in the digital space, meaning that they are either software firms, or hardware provided to telecoms, or other firms with a significant software component (e.g. in the Internet of Things space).

From those 81 firms 40 are in 4 continents and 4 are in 5 continents. An interesting point is that, although the difference is small, the percentage of digital firms going to 4 continents is a bit higher compared to the overall group.

In terms of the size of firms, out of 113, 51 are large (45%), and out of the 81, 33 are large firms (41%). Therefore, the percentage of large firms is lower in the list of digital firms.

Size of firms and number of markets:

Interestingly, if we include only SMEs from both samples, almost all "hyper-global" firms (in 4 or 5 continents) are digital. From the SMEs of the larger sample, 4 firms are in 5 markets and 19 firms are in 4 markets. From that subset (digital SMEs in 4 or 5 markets), 3 firms are in 5 markets and 17 firms are in 4 markets.

Therefore, almost all SMEs in 4 or 5 markets are in the digital space.

The Followership Model

As in other papers for the CDO project, our argument is that government programs and policies have to expand their notion of trade as it does not always reflect the reality on the ground. A pattern in our dataset that demonstrates an understudied practice is the 'followership model' -- companies following each other in multiple locations.

For example, Mitel and Opentext both have presence in at least 25 countries across North and South America, Asia, Africa, Europe, the Middle East, and Oceania.

There are two observations that require further attention:

- First, in most cases their offices are not only in the same city but in close vicinity, perhaps indicating coordination or dependence
- Second, they both have presence in hard to enter markets, such as Germany, Russia and Saudi Arabia

Although we have not confirmed with the aforementioned companies the exact reasons and strategies for following each other, interviews with executives in the industry confirmed this strategy (see section below).

Also, it is important to note that similar patterns were not evident in our dataset in the advanced manufacturing or energy sectors.

When and how do firms follow each other?

Interviews indicated that the main reasons to follow other firms are the shared talent, shared supply chain/business opportunity between firms, and government support. Specifically:

1. Executives moving from one firm to another and sharing intelligence and connections. This is especially important in hard to enter markets as firms often recruit executives with the knowledge and network required to penetrate them.

2. i) Client-driven: One supplier asking for two (conation) firms to collaborate. In larger projects where more than one supplier is required, clients often ask for suppliers who have collaborated in the past or have similar expertise to work together.

ii) Supplier-driven: As one of our interviewees put it, especially for client-dependent services in markets with high barriers, "you want your suppliers from home there". This option is more common in foreign markets where cultural barriers are high, therefore having a company that can cooperate easily is important.

iii) Opportunity-driven: Companies collaborated in a project successfully in the past and then identify similar business opportunities in other markets. This is more common in markets similar to each other, so their previous knowledge becomes even more relevant.

3. Government officials building knowledge on breaking barriers and then supporting export-ready companies in similar fields. This becomes especially relevant in hard to enter markets that require deep knowledge of the ecosystem, its entry points, and key people.

Mergers and Acquisitions – The case of Constellation Software

Constellation Software (CS) is perhaps one of the best cases to demonstrate the potential impact of mergers and acquisitions (M&A), especially of smaller firms. Founded in 1995 in Toronto, CS has slowly and relatively quietly managed to acquire more than 400 companies in over 40 verticals worldwide and reach a valuation of C$15B. Its stock rose from C$37 in 2010 to C$1,095 in 2018. This case demonstrates a strategy that is often overlooked – the power and effectiveness of a coordinated group of small companies.

CS's clients are typically small to medium firms but are the leader in a niche market. Vertical software markets are usually very fragmented and with small competitors as the required software is highly specialized, requires significant investments to develop, while has limited applications in other verticals. Larger software companies typically do not bother to develop solutions for vertical markets because of the relatively low return on investment and limited applicability in other markets. Clients also tend to stick to the firms they use because of the high switching costs. Therefore, both clients and firms in each vertical have limited options, creating a favorable situation for acquirers like CS.

An important difference of CS is its decentralized approach: first, it is not CS that makes the acquisitions but its subsidiaries. Each subsidiary (more below) is more focused in a particular set of sectors or geography. Second, the management of each subsidiary is decentralized as well. Operating managers of acquired companies often remain in their positions after the acquisition and operate their business. The difference compared to operating alone is that coordination by CS can help them dominate their verticals more easily.

CS has six subsidiaries, each with its own focus and culture, although the main practices of the mother company remain the same:

- **Volaris Group** is the largest subsidiary and operates in 15 different verticals, from bio-sciences to transportation to financial services. Following the strategy of CS, Volaris Group operates with a "buy-and-hold-forever model", which means that they acquire companies they want hold and grow for life.
- **Harris Computer Systems** has completed 110 acquisitions with offices in 105 locations across six continents and focuses on utilities, public sector companies, and healthcare.
- **Jonas Software** is focused more on people-oriented sectors such as hospitality. Their portfolio includes 75 "independently managed" companies in 20 vertical markets and in 30 countries.
- **Vela Software** serves customers in over 100 countries and in multiple verticals, although many of them are in more traditional sectors such as oil&gas and manufacturing. A difference compared to other CS subsidiaries, Vela has a more hands-on approach and coaches the companies acquired.
- **Perseus Group** is smaller and more nimble and more directly integrated into CS. They manage and grow over 30 companies in 10 vertical markets around the world and, similarly to CS, their acquisitions had fewer than 100 employees.
- **Total Specific Solutions** is the only subsidiary with a geographical focus as it operates solely in Europe. It has acquired 50 independently managed companies across multiple verticals, such as healthcare, finance, and government.

Appendix:

Constellation Software: Subsidiaries and Verticals