Cross-border expansion looks promising

Premium content from Business First - by Annemarie Franczyk

Date: Friday, May 13, 2011, 6:00am EDT

Related:

Manufacturing

Market conditions seem to be about right for businesses in Southern Ontario and Western New York that are pursuing cross-border expansion.

Canadian companies are being lured south in part by low post-recession interest rates and business valuations. For American companies, especially from the Buffalo area, the primary attraction continues to be long-term population growth projected for the Toronto region.

Companies from both sides appear to be passing each other on the Peace Bridge, but southbound traffic outnumbers northbound, says attorney **George Eydt**, a partner in Hodgson Russ LLP's international practice area.

"How many want to expand to the U.S.? All of the them," says Eydt, who practices in the firm's Toronto office.

Much of it has to do with the recession, which he says hit the United States harder than Canada and forced some selling. Business valuations are low, as are interest rates, and with the currency exchange, every $1 Canadian spent buys $1.05 in American goods.

"Companies have to sell because the bank is knocking at the door, or maybe they're comfortable with the price they're going to get. The activity has picked up a lot in the last few months," Eydt says. "It's a good time to buy assets in the U.S."

Numbers by organizations that market Western New York and other American regions to Canadian businesses seem to support at least steady interest.

Canadian government officials in Buffalo say they see about two dozen Canadian businesses expand into the United States annually. The Buffalo Niagara Enterprise has 29 active inquiries from companies seeking more information or looking at sites in the region. Since 2002, nearly 40 Canadian companies invested more than $50 million in Western New York, according to BNE calculations.

More Canadian businesses seem to be purchasing buildings than leasing recently, says BNE President **Tom Kucharski**. Regardless of the arrangement, a facility in the United States allows a foreign company to put “Made in the USA” on its products. That’s how Kingswood Historic Windows & Restoration Inc. came to set up shop in Buffalo.

The five-year-old Wainfleet, Ont., company performs custom work on historic wood doors and windows. It recently was selected to restore or replace 400 windows – an $800,000 project – in the restoration of a 19th century building in Manhattan. The federally funded project includes a Buy American clause, which prompted Kingswood owners, brothers Allan and Randy Cheynowski, to add a U.S. location and pursue more work on this side of the border. The company will hire six craftsmen and invest $350,000 on machinery and equipment at a leased facility on Lovejoy Avenue in Buffalo.

“With our business actually going that way, we set up a location for that project and ongoing business,” **Allan Cheynowski** said. “With a facility and an American work force, we can take on more site work and restoration work.

Warehousing for some Canadian companies is a good first step into the U.S. market. Hundreds are doing it, and are avoiding delays and paperwork associated with the border while taking advantage of a 1995 law that exempts goods in third-party warehouses from state taxes. Also attractive: a network of warehouses, freight forwarding companies, customs brokers, bankers, lawyers, accountants and others.

For American companies contemplating a move north, doing business in Canada can be expensive, says **Chris Johnston**, president of the World Trade Center Buffalo Niagara. Labor costs are high and the Canadian dollar is strong and not returning to the 60- and 70-cent lows. Further, the ease of expanding into Canada depends on the business sector, he says.

Service providers such as estate developers, accountants, engineers and architects and financial services institutions usually move into Canada through mergers and acquisitions or organic growth. Otherwise, professionals are likely to bump up against the North American Free Trade Agreement, which made it difficult for professionals to cross the border quickly.

“The entry strategy is dictated by acquisition or establishing an office or presence to serve the Canadian client. That’s really the only way to do it,” Johnston says.

NAFTA, however, made expediting the movement of goods “relatively seamless," he says, so American companies are able to reach their Canadian clients from this side of the border without a Canadian presence. Auto parts, he adds, go over the border 11 times in the course of building a car.

But doing business in Canada can be real easy, according to Johnston. There are no language barriers, no time zone issues, the currency is relatively easy and the regulatory structure is not difficult to decipher. And there's that growing population.

That's what Kenneth Franasiak is focusing on. His company, Calamar Construction Management Inc. of North Tonawanda, expanded to the Niagara Peninsula a decade ago and now has sites in Niagara-on-the-Lake and Toronto. He can tick off lots of reasons to be there: There's a 33 percent projected population growth during the next 10 years, and the Toronto region has the largest condominium market and is among the largest industrial and office markets.

"To serve that market is to serve a market the size of New York City or L.A.," Franasiak says. "It's a very fast-moving market. It has amazing amounts of opportunities."