

Government programs can mean extra funding for apparel companies



By Elliot Schiller

Over the past few years, federal government agencies such as Industry Canada, the Department of Human Resource Development and Canada Revenue Agency, along with their provincial counterparts, have created funding programs of various types for Canadian companies across a range of sectors. Although these efforts have been subjected to occasional criticism - many have characterized them as inadequate, unclear or, simply, overdue - hundreds of companies have taken advantage of them.

CATIP

Companies in the apparel and textile sectors, in particular, stand poised to leverage these opportunities. In December 2002, Industry Canada announced the CATIP (Canadian Apparel and Textile Industries Program), created explicitly for the purpose of supporting the apparel and textile industries. Within two years this program was replaced by CANTex, a textile industry initiative, also applicable to vertical apparel manufacturers, aimed at supporting production efficiency improvement in qualifying organizations.

CANTex

If your end product is apparel, and if you start with yarn - whether to manufacture socks, hats, sweaters, undergarments or any other apparel product - you are a likely candidate for a CANTex grant, by which Industry

Canada will contribute up to \$100,000 per project to support any initiative that improves productivity or assists in improving a company's environmental controls. CANTex has two years remaining before it expires, and, along with CATIP, has provided hundreds of companies with funding to bolster their presence, especially against non-Canadian competitors.

SR & ED

The oldest federal program managed by Canada Revenue Agency - complemented in most cases by provincial incentives - is the Scientific Research and Experimental Development Tax Incentive Program (SR&ED). Recent changes to this program have significant implications for the apparel sector.

Since its inception in 1985, the focus of the program has shifted dramatically, from supporting large scientific breakthroughs to supporting companies whose breakthroughs have been comparatively minor, or even just internal. Available to organizations across Canada, SR&ED provides tax incentives for companies attempting to develop new products (or, in apparel lingo, samples) or improve existing processes (that is, find a faster, better, cheaper way to sew that garment).

If your business has traditionally been focused on manufacturing poly/cotton men's shirts, for example, and you begin experimenting with technical/chemical textiles to provide tops to the industrial sector (for firemen, say), you may qualify for an SR&ED incentive.

Even if you only develop your sample line in Canada but have production done overseas, you may likewise qualify. Canada Revenue Agency is willing and eager to support any attempt to develop new products or processes, provided a company can demonstrate three things:

- 1- a legitimate attempt to achieve something new;
- 2- that uncertainties exist which must be conquered for the attempt to be successful; and
- 3- that the attempt is carried out in a professional manner by qualified personnel.

Despite over \$2 billion that Canada Revenue Agency provides annually to support such initiatives, many companies and sectors remain underrepresented. At a June 13, 2005 speech to the Halifax Board of Trade, Finance Minister Ralph Goodale criticized business for not spending enough money on research and development. "Despite having access to one of the most generous tax regimes for research and development," he said, "many sectors of our economy are still not investing aggressively in innovation."

This can hardly be said of the apparel sector, which continues to push the envelope with new products, improved techniques and innovative fabrications - from commercial innovations such as fabrics that help us exercise more comfortably to industrial products that enable firemen, policemen, armed services personnel and paramedics to perform their duties more effectively.

However, while Canada Revenue Agency has relaxed its requirements for research and development incentives, opening the door further for apparel and textile companies to benefit, it appears few have. According to Statistics Canada, apparel and textile companies represent approximately four percent of the manufacturing sector in Canada, but only two percent of funds being distributed through SR&ED.

Part of the issue, it seems, comes down to simple mindset. Many apparel companies feel they are not in the research and development business, since a large proportion of the ideas for new products come from vendors such as Wal-Mart Canada, Zellers or U.S.-based competitors and counterparts requesting reverse engineering or knockoffs.

In a recent white paper on the textile sector, Canada Revenue Agency acknowledges this unique feature of the garment industry and indicates clearly that attempts to improve upon, or even duplicate, existing products do not disqualify a project from SR&ED eligibility. You may be reproducing a designer's sweater with a similar weave, similar characteristics and similar function - however the product is still unique to you, as is its development, making you potentially eligible.

**Would you climb Mount Everest
without a sherpa guide?
...then why implement your computer
system without Teeger/Schiller?**



System Search • Systems Evaluation
Needs Analysis • Best Practices Consulting
Grant Development • Project Management
E-Commerce • Systems Enhancement

TeegerSchiller Inc.

SYSTEMS CONSULTANTS

Contact: Elliot Schiller
Toronto Phone: 416.480.0832
Montreal Phone: 1.888.676.0832
www.teegerschiller.com

PEMD

One of the more controversial federal programs is called Program for Export Market Development (PEMD). An International Trade Canada grant, PEMD was created to help companies defray the cost of exhibiting at tradeshows. Its contentious wrinkle involves an odd stipulation. Should a company increase its sales through the tradeshow it participated in with PEMD's support, the grant reverts to a loan. It's like placing a bet against your favorite team and then going to the ballgame and not knowing who to root for. If you win the bet, your favorite team loses. If you lose the bet, you lose the bet. PEMD has been on suspension since 2004 - to a certain extent, we suspect, as a result of its troublesome mixed message - and is in the process of being revamped.

FSDP

Predictably, as a result of Canada's commitment to the Kyoto protocol, some of the newer funding initiatives revolve around environmental issues. The Freight Sustainability Demonstration Program (FSDP), for example, is part of Transport Canada's response to Action Plan 2000, the Government of Canada Climate Change Plan. FSDP focuses on the use of technology and best practices to reduce greenhouse gas emissions and fuel consumption by any mode of transportation. Like CANtex, it is a shared cost program, with the government portion valued at up to \$250,000 per project.

IERD

Another program of note is Industry Energy Research & Development (IERD) provided by Natural Resources Canada. IERD is aimed at promoting the development of products, processes or systems that increase the efficiency of energy use throughout industry. Like PEMD, however, IERD contains the curious, and not entirely attractive, proviso that the more successful a company is in selling its developed solution, the higher the rate at which it must repay the subsidy.

Tax credits for design

On the provincial front, Quebec continues to lead the way in funding initiatives - not surprising, since approximately half the apparel sector lies within its boundaries. For years, Quebec has provided tax credits to companies employing designers with post-secondary educations. The recent provincial budget has served to loosen certain constraints and limitations on obtaining these credits, and pattern makers have been added to the program. Credits must be applied for on a fiscal year basis; if a company misses the application within a fiscal year, they forfeit the incentives. If your corporate year end is looming, find out the rules - don't squander a potential entitlement.

The incentives, initiatives and credits discussed here represent only the tip of the iceberg. The federal and provincial governments have a great many other loans and grants available to companies that can demonstrate a plan for utilizing the funds effectively. Such incentives are not designed to turn a poorly run business into a successful one; they are designed to help hard-working, forward-looking companies scale new heights.

Consider this: If your profit margin at the end of the year is 10 percent, a \$100,000 government program, applied to your bottom line, is equivalent to a sale of a million dollars.

Would you really ignore a potential million-dollar sale? ■

Elliot Schiller, B.Sc., Ph.D., C.M.C. is co-founder of Teeger Schiller Inc., management consultants serving clients in Toronto, Montreal and New York and specializing in the sourcing and securing of government funding as well as the improvement of business operations through enhanced use of systems. During the past year, clients of Teeger Schiller Inc. have received over \$6 million in government funding.

Services Provided by Teeger Schiller Inc.

Management Consulting Division

- Existing Systems Evaluation
- Existing Systems Improvement
- Needs Analysis
- New System Search / Selection
- Implementation Project Management
- Logistics / Operations Consulting
- Best Practices Consulting
- Change Management
- E-Commerce / EDI Support
- Data Mining / Reporting Tools



SR & ED / Grant Division

- Identify and Develop Claim
- Engineers / Former Federal
- Up-to-date on Program Nuances and Changes
- Templates Provided for Project Documentation
- SR & ED Technical Claim Preparation
- Training to Ensure Proper SR & ED
- SR & ED C.I.C.A. Continuing Education Credit Courses
- Free Consultation to Evaluate Claim Potential
- Meet with CRA to Support and Defend Claim
- Government Funding Opportunities



Policy Governance® ♦ IT Governance

- Policy Governance® / IT Governance Workshops
- Policy Governance® / IT Governance Implementation
- Board Coaching
- CEO / ED / CIO Coaching
- Governance Templates
- Owner Accountable Leadership
- Ensuring Fiduciary Compliance
- Develop Board of Directors Policy Manual
- Board Process Maintenance
- New Director Orientation



David Teeger

Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada, he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, auto parts, household goods, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions. As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.



Elliot Schiller

Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger. As a founding partner of Teeger Schiller Inc., he has focused the SR&ED Division on obtaining grants and tax incentives for companies in the small to medium sized business sector. His team has provided services to the discrete manufacturing, material development, apparel, textile, information technology, and process manufacturing sectors. Last year alone, Teeger Schiller Inc. was able to secure over \$6 million in government funding to assist its clients in having their business initiatives supported by government funding.



304 Richview Ave., Toronto, ON M5P 3G5
Phone: 1-888-816-0222

info@teegerschiller.com • www.teegerschiller.com
Toronto • New York • Montreal