The ICEHOUSE: Export nation?
ICEHOUSE chairman David Irving and chief executive Andy Hamilton meet hundreds of business people striving to grow their ventures across international waters. Recently, they invited a venerated group of entrepreneurs—and one lonesome business commentator—to share their wisdom over lunch about the current and future state of exporting. Here’s an edited transcript of what happened.

EXPORT PERFORMANCE

Irving: Four percent of New Zealand businesses are exporting. Is that a good number, or not a good number?

Oram: It’s a disaster. It seems to me that the fundamental problem is the vast majority of New Zealand businesses are just locked into a very modest business model that restricts them to New Zealand and they have no concept of what a wider world might look like. The second thing is that it is obviously harder to export from New Zealand than to put your goods on the back of a van and drive it across the border from Luxembourg into Belgium. It’s also clear that technology

Participants

John Buchanan – Director, Mount Riley Wines
Greg Cross – CEO, Esphion
Robert Darroch – CEO, Future Products Group
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David Irving – Chairman, ICEHOUSE
Pete Maire – Chairman, Navman
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and internet marketing is evolving very rapidly, but it seems to me there’s very little exploration in New Zealand of that knowledge and sharing of that knowledge which would then give people greater confidence. It’s perfectly possible for companies here, with very little overseas travel to start to export—as long as they understand how to create a very credible and attractive presence on the internet. Everybody in the U.S. is completely happy about the idea of a presence on the internet and distributing by FedEx, well you can do that from Auckland too. But that’s just not the mindset of so many people.

Hutcheson: Many businesses decide they want to export, so they get on a plane and arrive with their sample cases. It is really scary and it’s incredibly difficult and time consuming to approach a market in that way. So I think most exporters think that the exporting building is 100 floors high but they need to get off at the second floor because there is that incredible sense of scale. From New Zealand, you can’t just jump in the car and cross the border, so you’ve actually got to take it seriously and it can cost half a million dollars to get established in the U.S., by the time you’ve done ten trips there. Our culture is about small to medium businesses, so what the Lighthouse are looking at doing is providing cluster solutions and umbrella branding.

Cross: Four percent is a terrible number, but you have to believe that trends are increasing, certainly in some sectors. I come from the tech sector and we’ve seen the demand for technology companies looking to export into the Middle East, Japan, the U.K. and U.S., grow quite dramatically. For many of those companies exporting is not an option, it’s the only way they’re going to grow. And now we have young New Zealanders who have had a lot of experience working in offshore markets. I think there are some very positive things happening which will enable us to do better going forward.

Oram: In a survey of exporters (conducted by New Zealand Trade and Enterprise) the bulk of exporters, and the ones with the longest track records, were in the primary sector, but they’re not growing. It’s dominated by virtual cartels like the meat processors, they’re selling very low into the value chain and it’s really distressing that very few people in the
primary sector are pioneering ways to get out in the way that, say, wine does. The group of exporters that are growing fastest are those in tourism and services, and services is the really interesting category. They tend to be very small with very short track records, but—as a little glimmer of hope—that’s where IP lives.

Nowell: To add to that point, there is also clear evidence that there is a great opportunity for New Zealand to export technology that actually does come out of the pastoral sector. There’s a huge knowledge base that can be exported, and I think we’ve got to get a lot smarter about how we grow that area, but without damaging ourselves in the process.

Oram: Zespri would be a good example of how that’s being done the right way, in the sense that foreign plantings are protected from an IP point of view. Fonterra would be an example of the wrong way because Fonterra is still massively built around a business model of huge commodity volume, rather than a global view of sourcing and manufacturing.

CRITICAL SUCCESS FACTORS

Irving: I think we learn from both success and failure, and it’s valuable to hear both perspectives. What would you say were the main lessons that enabled your businesses, and others that you see, to grow themselves in a sustainable way offshore?

Maire: Initially I failed as an exporter because I went to the Australian market as a typical small New Zealand exporter and found it very tough. So after a couple of years essentially we gave up. But I think perhaps the difference is that we worked out why we failed, and being in the electronics sector, we realised that we had to build a product at a much lower cost than we had been as a niche market player. We had to leverage other things to help us be successful on a bigger scale. The next step was going direct to the U.S., rather than back to Australia. I think a lot of Kiwi companies have failed because they go to Australia with very little knowledge about how to find a distributor and how to enter a market. If you’ve done ten trips in the back of a plane and you’ve stayed at those five dollar motels, then you can say you’ve given it a shot. The first trip you don’t understand anything, the second time you go back and and manage to ask a few questions, the third time it starts to make sense, and fourth and fifth time you actually get some business. It’s all about perseverance.

Nowell: Well, having spent thirteen years in Asia with a mix of heartbreak and frustration, I saw a trail of these small New Zealand exporters visiting and failing. It’s often driven by some instability in their business position in New Zealand, so they decide to try something offshore. So I have developed some fairly firm views about where they’re going wrong, and I think too often I saw no strategy, no planning, and people arriving with very much a trader mentality—getting off the plane in Singapore with a suitcase of goodies. It showed poor understanding of the markets and a very poor understanding of the cultures. Then they don’t understand why they get completely stony faces on the other side of the table. The other thing that I would highlight is around profit models. I think that often you might get somebody coming out of New Zealand that’s got, say, a 20 percent net margin in their business and they expect to export and repeat that. But your net margin in another country might only be 10 percent. I think people have got to get over the ratios at times and look at the absolutes, because if you’re going to get ten times the business, then look at the absolute profitability.

Hamilton: The answers to these questions are out there now aren’t they? There are enough people who have done it, made the mistakes and lived to fight another day. The issue is we don’t go and extract that knowledge and experience and then share it with others. Compounding our lack of collaboration is that some companies don’t want to listen and just want to get on a plane and sell their wares. Why do more companies not treat the issue of building a global business in a strategic manner with a good plan and foresight?

COMPETITIVE ADVANTAGE

Irving: In what ways are New Zealand businesses struggling or excelling in overseas markets?

Darroch: We’re a small to medium enterprise in our third year of export and we manufacture customised refrigeration for the likes of McDonalds. The challenges we face at the moment going into Europe are around not having a strong presence in those countries. We become the scapegoat for anything that goes wrong with our product and we can’t stand up in front of people and point fingers at service agents. So we’ve got a significant cost in our next phase: getting people on the ground. We’ve also got the huge cost of compliance—every country is different in terms of regulations.
Oram: What is it about what you're offering that appeals to McDonalds? What's your advantage over competitors?
Darroch: I think it's a Kiwi attitude and the fact that we've brought a technical product to the market in a very short space of time. They have tried other manufacturers around the world and we seem to be the only ones that have been able to do it in a very short space of time and to fully comply with what they're after.
Maire: You're a classic case of the kind of New Zealand company that absolutely can succeed in the export market very quickly, because you've got good technical knowledge, good capability and a can-do attitude. The reason you're succeeding is because you've got that flexibility. When you go into places like Europe and the U.S., you can react quickly and satisfy people's needs. It's the OEM model which works for New Zealand as opposed to the product-branded model where you're competing with 50 other people and you're trying to launch your brand into a retail market—which is almost impossible to do.
Downs-Honey: There are several companies in the yachting industry that are in a small niche but you could argue that they're one, two or three in the world in that niche. So those companies in the $10 million to $50 million turnover range have been successful because they have been required to export. The market here for them is too small. They've just carved an image, and the success factors that I've seen in my industry are niche, technology and the best in the world.
Oram: The crucial thing there is they've found their place in the value chain. They can be world-scale, but still very small in scale—and that's a very sweet spot to be in. Small-scale is right for us in New Zealand, and the world-scale point means that you can keep up with the competitors out there.

BRANDS AND RELATIONSHIPS
Von Roy: Doesn't it depend on whether our product actually is better than the available product in the market we are exporting into? New Zealand has a strategic advantage over the United States when it comes to dealing with Asian countries. There are a couple of things we are doing. For example, if we go to the States we already know there are four or five competitors that are as good as we are. We may believe that we are 5% better, but that's not the market's perception. However if we move into China, Malaysia or India, we face the same competitors, but because we're coming from New Zealand we will often have the edge. We've had people say, "If you can deliver the same stuff, consistently, at the same price, we will go with you."
Maire: If you have the best technology and you've got a guy who believes it's the best and he can knock on the door anywhere in the world and sell that product, it's very easy to do that. You don't need to worry so much, you can overcome the barriers for the customers of where you live, where it's built, where it all came from. We compete with Sony and all the giants, but we also build products for them. In fact Navman builds OEM navigation products branded Sony. But when it comes to building the brand and the channel, Navman's success in the U.S. market is very very small, in fact you could call it a failure. But in Europe it's different and in Australia the company's very successful. So there are some places where you can go where you can succeed and build a brand or channel in an affordable way, but in the U.S. market and mass consumer market, it's very difficult to build. To promote a product in the U.S. you could spend $100 million on advertising and you could field nothing.

CHANNELS TO MARKET
Irving: Finding the right channel to market and the right distributor to represent you is critical. How have your companies achieved it?
Maire: When we first went to the U.S., we took a product with our brand on it and we found a little retail house and they bought some. We floundered around and we had lots of failures and then we suddenly realised that with the U.S. market, it's brand. Americans buy brands and so I guess after a few people explained this to us, we went out and found a company with a great brand who needed product. When we'd done that for a few years we wanted to own the brand because at the end of the day the brand and the channel is the margin. So we went to Europe and decided we could do brand and channel in Europe, because we can pick off one country at a time, and we could afford to get known in one country and then we can roll to the next, and the next and the next. And I think the difference with Europeans is that they are prepared to actually buy new brands, whereas Americans don't—unless it's very cheap, and you don't make money that way.
Cross: The number eight wire mentality can produce good products, but the critical element is the market research and how you’re going to focus your marketing activities. Is there a business plan that clearly outlines the strategies for distribution, what the value propositions are? Even more important is an awareness of the skills and resources you will need to acquire along the way. Without a doubt, one characteristic of many New Zealand companies going offshore is that they’re going to be undercapitalised—so you actually have to be smarter than everybody else.

Downs-Honey: Our company went to Australia and failed. But we’re doing more work on market research now and more work on planning. I’m still champing at the bit to get out there, but I know I’ve got to tick all the boxes before I do it. So for companies that are willing to listen, there are definitely people who can help you identify the pitfalls; help you deal with different environments; and how to make sure that the domestic business is going to be looked after while you’re focusing on something else.

SECTORS AND VALUE CHAINS

Irving: Can we talk about how much distinction there is between what we call knowledge industries and the traditional industries? Knowledge-based industries can typically scale up that much more quickly, so do you think we should be focused on those sectors?

Oram: The great thing is that if you look at industries like meat, dairy or forestry, there are opportunities to work on to move up the value chain. We actually could scale up very rapidly across those traditional sectors if knowledge was created and applied. Every industry has its own issues, but in terms of access to market and branding issues, I actually think there’s great commonality across the whole economy.

Von Roy: There is a huge distinction between them and what traditional New Zealand companies have to do in order to succeed in exporting. When you look at biotechnology, it’s a very different ballgame. There is no such thing as a local market for the product that you hope to develop. For a New Zealand company there is no option but to export. But the question is what do you export? It’s very limited because in order to get any return from the intellectual property, you have to have registration in the United States and Japan and in Europe—which means that you’ve got to spend millions of dollars. And what is the right vehicle for commercialising IP? New Zealand has fantastic universities, for example, but they are in no position whatsoever to commercialise their intellectual property.

van der Velden: At the Lighthouse we’re going down that new knowledge area. We don’t have physical facilities like manufacturing facilities, our focus is on branding and distribution and we will get the best to make it at the best price wherever that is. Like the Navman story we are going to try and own the channel and brand.

Maire: I don’t think it’s a different ballgame. Let’s say the University of Auckland has developed a bit of biotechnology that is going to produce a wonder drug for the world, the first thing I would say is okay, can we own the farm? In other words, if we take this bit of technology, can we take it to a drug house that can produce it and turn it into a product? And the answer to that is always yes, because the pharmaceutical business runs on large scale, OEM manufacturing plants. The next thing I would ask is whether I can put a brand on it and take it to the world market, and put it through channels where it will get to the end customer? And the answer to that is probably no. In other words, what I need to do is go and find someone who owns the brand and owns the channel and let them go for it.

Buchanan: Well I own a business which is based in Marlborough and I exported successfully, probably because I didn’t know how hard it was, nobody told me—we just went and did it. We sell through distributors and agents and we now sell to 15 different countries. But what I’ve found is that it only works for us when we run our business over there. It sounds ridiculous, but if we just send the wine to our agent and leave it to him, it doesn’t work. So we’ve had to become more involved. We work pretty hard from New Zealand, and we handle a lot of it from here. When we’re in the market, we get the sales people’s emails, so we email them all every month and we phone them every month. We also work really hard at researching who our agents should be. We research exhaustively on the internet and look for the right company that has distribution in the areas we want to go. I guess we’re also a bit reluctant to dump agents—we’re probably a bit too Kiwi—and we probably have tended to get into relationships...
and regard it like a long-term marriage. We haven't been ruthless enough to get out of relationships that don't work. What we tend to do is zero in where we think it can work and then work bloody hard to make it work.

**LIMITING FACTORS**

*Irving:* We all read the headlines: foreign exchange rates are up; exports are down; compliance issues are closing down businesses. How much of it is really true? 

*Oram:* I believe it's overstated. For me one of the most instructive examples is Tenon, which has a very good business of selling clear wood mouldings into the United States. Over the last three or four years they developed fantastic relationships with Home Depot and Lows, the two big DIY chains. They started those relationships at around 40 U.S. cents to the dollar. At 70-plus cents they've been selling record volumes into those, even though their competitors in Chile are cheaper. It's all about the incredible supply chain they've developed, that starts with the forests near Taupo. I think that's a stunning story about creating a business model that isn't exactly immune to a high dollar, but it certainly can cope with it far better than was traditionally the case, because they're not selling purely on price. Even a relatively simple product like clear wood mouldings, they've been able to add an enormous amount of value that the Chileans just can't deliver. 

*Downs-Honey:* If you've got something that can survive at 70 cents but not 72 cents, then you're going to have to be ready to close the door at 72. The New Zealand boat building industry is interesting in that respect. We're building the super yachts, the luxury boats, and we're competing with Holland. Has Holland got low cost labour and exchange rate advantages over us? No. We're not competing with Vietnam or Taiwan or China, we're in a different market sector. So if you pick the market where you can build a business that's sustainable at 90 cents in the dollar then you'll be successful. 

*Nowell:* I also look at the way that the Germans and Japanese support their business communities, it's fundamentally different. Before a German business person goes offshore they can visit a business centre and learn about a country's customs, its languages, how the country operates, and to develop some contacts. So many companies go offshore, they burn cash and break their legs learning how to make mistakes. Given that we are such a small country, if there was an agency that could provide you with those insights before you went out and started burning cash, would that be a better way to do it? 

*Oram:* With all due respect to NZTE, I don't believe they're the solution. I think there are too many issues around the politics and the bureaucracy. They can do lots of other things, but we need an intermediary that can develop knowledge and then refine that knowledge in various ways to get other people excited about it. It's just not working at a very fundamental level. 

*Maire:* As taxpayers, we fund $1 billion of R&D through tertiary institutions and Crown Research Institutes in New Zealand and what do we get for that investment? It benefits Fonterra, and that's great, but Fonterra and the farmers of New Zealand are established and mature enough in their businesses to fund their own R&D. We have a scheme where the Government has about $50 million available for companies to subsidise R&D costs. Compare that to the $1 billion. If we want to succeed as a country—and there are a lot of incredibly clever people here who can create great IP that the world wants – then we need to give a percentage down into the business, not into the CRI's.
Hutcheson: There isn’t a climate of support. We’ve started five new companies in the four years and the first mail you get is from the IRD telling you what they’re going to tax you. There’s no letter saying congratulations for employing so many people.

Hamilton: With the start-ups in The ICEHOUSE incubator, what we are trying to do in terms of support is provide interventions as a lever to improve their decision making. It’s not about them making the right decisions, it’s about getting the team around them who can help them make the decisions—because without the team they will invariably do the wrong thing.

MANAGING SCALE

Irving: Could some of you talk about how you manage your company? I’m interested in your perspective as a manager and how you managed your business to enable it to grow? What was your day like?

Downs-Honey: There’s a big issue with managing exports. If you’ve got a company in New Zealand and it’s grown to a certain point, you have to let go. Otherwise, how do you cope with managing that distance and the phone calls from overseas all night. The danger is letting those people make mistakes when you can’t even see them making them because they’re too far away. That’s what caught us out in Australia, we just didn’t have the management resource in New Zealand to keep a track of the guys in Australia.

Buchanan: We started from very humble beginnings, the first year we made three thousand cases of wine and I looked at this sea of wine and wondered how we were going to sell it. When we started off, we seemed to hit obstacles in everything we did. So we just managed by solving problems as we went along. For example, we couldn’t get the grapes we wanted so we bought a vineyard. Then we couldn’t find a decent agent in New Zealand, so we set up our own selling team here. Having said all that, we planned like hell. We did a plan, and we really cared every step of the way. I think if things had started falling off the graph we would have died pretty quickly. We’re vertically-integrated now and it’s all about

relationship marketing, so we’ve pretty much got everything under control.

Maire: If you’re dealing with all the customers you’re developing knowledge and the feel for the distribution channel. One thing I worked out in Australia is that we needed to have a good Australian person running the business there. Business is about ownership and if you can’t trust the people, you worry about it constantly. What we always said was that if you find the right person, make them a shareholder in the company. The guy that started Navman in Australia is a shareholder. It took me four years to convince him to join us but we gave him 20 percent of the company and we repeated that story when we got to Europe. I can see what’s driving Taiwan. I’ve spent a lot of time there and it’s all about equity. There is no engineer in Taiwan who works for a decent company unless he’s got equity in the company. When we sold the business, 62 of the staff had shares in that company.

Downs-Honey: You’ve coped with taking on people and
Downs-Honey: quite that simple. across us and do the deal. We very quickly learned it wasn't along. We'd wait for the perfect agent to come stumbling a trade fair and stick up a stand and wait for people to come off and say, "Let's export to Ireland." So we'd just whizz off to had trade fairs all over the place, and we would just wonder Buchanan: exporters out of the top. a huge base of New Zealand companies to get a handful of 700 bands from schools around the country competing this Rock Quest, a secondary school band competition. There are bigger the base, the better the peak. A parallel example is said that's where it started for him, it's in his blood. Here, we side of the room to this other town they called America. He They put the stuff on the ships and took it across the other made little towns out of blocks, model ships and factories. exporting? He said that when he was at kindergarten they have a strategy, they're not prepared to take on any investment unless it's at a high valuation. And that's a worry because from our point of view, do we try and help them? Do we try and get along side them, or do we just focus on the guys coming in at the beginning? DEVELOPING ENTREPRENEURS Irving: We're an entrepreneurial nation, but we have a high failure rate in terms of the number of businesses surviving and going on to export. How should we be developing our entrepreneurs? Maire: I've got this very good Taiwanese friend who became hugely successful and I asked him how and why he got into exporting? He said that when he was at kindergarten they made little towns out of blocks, model ships and factories. They put the stuff on the ships and took it across the other side of the room to this other town they called America. He said that's where it started for him, it's in his blood. Here, we tend to grow up with a rugby ball in our hands. Oram: But the rugby model is a very important model: the bigger the base, the better the peak. A parallel example is Rock Quest, a secondary school band competition. There are 700 bands from schools around the country competing this year. We have to generate a similar level of excitement across a huge base of New Zealand companies to get a handful of exporters out of the top. Buchanan: In the early days, the New Zealand wine industry had trade fairs all over the place, and we would just wonder off and say, "Let's export to Ireland." So we'd just whizz off to a trade fair and stick up a stand and wait for people to come along. We'd wait for the perfect agent to come stumbling across us and do the deal. We very quickly learned it wasn't quite that simple. Downs-Honey: The first three customers we had in the U.S. all went bankrupt within the first two years. It's a brutal experience, but we should all be telling our stories and then following it up by describing how it should be done. Oram: The missing part for me is the early stage, where people start to build up that experience so they understand what their value is and when they do enter into a relationship they knew exactly how to make it a constructive engagement. And that's about having time, in terms of reflecting back and looking at what has been successful and what hasn't been successful, and thinking about what it is that you are bringing to that relationship. And I think often having that time is a challenge because we're all out there doing it, and that's hard.

AUSTRALIA Irving: One thing that I find a dilemma about exporting is our relationship and our performance in Australia. There have been so many failures in Australia, yet there is so much to suggest we should be winning there. What is it about the New Zealanders and their performance in Australia? Downs-Honey: For some of those that are successful, they had no option: they couldn't be successful in New Zealand because there was insufficient critical mass here in the domestic market. So you can treat Australia as an extension of the domestic market to grow your base and your understanding, but you probably don't want to rely on it as the entire solution to your business. Von Roy: We're using Australia as a test customer. What I said was let's make sure the product functions in another setting, so we learn exactly what we need to do in other places. New Zealand was too small for the test market and the U.S. was somewhat too big, so Australia was perfect as a test market. Oram: You have to very careful on the sector, because for example in IT it would be absolutely crazy to waste time in Australia. It's far too hard, far too small and you would learn very little there that would then be useful in Europe or the United States. Maire: It's a fantastic market for us and a fantastic source of people too. I'd say globally, some of our best sales guys come from Australia, because they've got that hard edge. You can send them to places like Texas. Oram: Every time I come back to New Zealand from overseas, I come back evermore reinforced by a whole bunch of things. One is that the opportunities for us out there in the world are absolutely amazing. Secondly, small-scale is actually the key to that success, but the kind of small-scale/ world-scale that we discussed earlier. And thirdly, that we just don't get it. The exporters around this table are getting it, and there are a growing number of exporters getting it, and there's a growing sophistication in what's being done. But the volume and sophistication is actually growing more slowly than in world markets, so a huge step change is needed here to realise those opportunities.