University of Auckland Business Review
Volume 10 No. 2

Macpac gears up and gets out there

- Maureen Benson-Rea and Deb Shepherd

Macpac gears up and gets out there

By Maureen Benson-Rea and Deb Shepherd

By 2006 Bruce McIntyre was thinking about easing himself out of the day-to-day running of the business. But recent changes had created a new set of challenges. Managing relationships with Asian manufacturers and quality control for export stock were critical issues. Would the Macpac culture and brand that had been built over 30 years survive in the new global marketplace?

By 2006 Bruce McIntyre, the entrepreneurial founder of Macpac, had built an iconic New Zealand company which had survived turbulent times in the late 1990s and early 2000s. After 30 years in the outdoor equipment manufacturing business, losses in 2001 and 2002 had forced the company to eliminate 11 management positions and 150 production jobs, reduce its 230 product lines, and outsource its manufacturing to Asia. Even with restructuring, the company lost money three out of the five years between 2001-2005. In 2006, the staff total at the company's Riccarton, Christchurch, headquarters, was 65, with twelve manufacturing staff retained to produce prototypes and customized orders. The company had been rebuilt with a newly appointed CEO, strong sales, marketing and logistics teams, and reconfigured into a design and marketing company rather than a manufacturing company. Bruce McIntyre felt that Macpac could face the challenge of building a global high quality out door equipment and clothing brand. Since Macpac was profitable again, McIntyre was thinking about easing himself out of the day-to-day running of his company to pursue new personal challenges. However, the changes also brought a whole new set of challenges for Macpac. How would it manage the critical relationships with the Asian manufacturers and the quality control of stock going to its export markets? Would the Macpac culture and brand that had been built over 30 years survive in the new global marketplace?

Dr. Maureen Benson-Rea and Dr. Deb Shepherd are both Senior Lecturers in the Department of Management and International Business at the University of Auckland Business School

New Zealand origins

At the age of 19, Bruce McIntyre dropped out of university in 1973 and borrowed $2,000 from his father to buy a small Christchurch-based bag manufacturing and repair business. A keen tramper, McIntyre began with the simple belief that he could make better and cheaper tramping packs than those available. For several years he worked out of his parents' garage, where his father also ran a bag making business. After a cautious start making and selling packs to his friends, McIntyre learned how to sew from his father and started selling to the handful of specialist outdoor and sports retailers in his area.

By 1980, Macpac had grown to 20 staff with sales of $300,000. One of Macpac's retailers at the time was Geoff Gabites, who had a shop in Dunedin, one of the few outdoor specialist stores in the country. Gabites and his wife Shelley also had a home-based business making clothing, sleeping bags and a few tents, but in limited quantities and less profitably than McIntyre. Gabites proposed a merger of his company, Wilderness Products, with McIntyre's Macpac. They initially formed a marketing partnership and sold everything under the Macpac brand. The logistics between Christchurch and Dunedin were complicated and even the expense of phone calls became unmanageable. So the Gabites moved to Christchurch in 1981 and the merged company moved to a new 1,120m^2 facility, increasing its staff to 30. McIntyre had a controlling interest and acted as Managing Director, and Geoff became a director and the Sales Manager. Shelley managed production planning.

The move made the company the first in the country offering a range of outdoor products. For McIntyre, however, the merger with Wilderness Products did not prove easy in the long-term. He found it difficult to manage the merged operation while Geoff Gabites, an experienced entrepreneur with strong ideas about the direction of Macpac, was actively involved in the company. Geoff worked at the company on a daily basis until 1986 when he moved on to pursue other interests. Shelley Gabites has remained heavily involved in the company as a director and has continued to manage domestic and then later international production.

The 1980s: Changes, exports and growth

After initially selling in Australia through an agent, McIntyre opened a Sydney office and warehouse and by 1983 exports there represented five per cent of Macpac's total sales of $1 million. Exporting to Australia and accounting for expenses was demanding before the Closer Economic Relations (CER) agreement. Macpac's Australian operation was expensive and largely ineffective and McIntyre ultimately decided to run exports from its NZ headquarters. In the mid 1980s McIntyre began designing for the US market, and made three trips there to investigate the competition, taking prototypes and meeting with retailers, but with limited success. In 1984, with the company still growing, McIntyre asked the company's production manager, Doug, to run the business for a year. Doug had natural leadership skills, and he and Geoff Gabites had become close friends. It was an opportunity for McIntyre to take a step back from his business and operate solely as a director.

However, the performance of the company declined into a pre-tax loss in 1985, and McIntyre was unhappy with the hierarchical reporting structure that had been introduced in his absence. McIntyre appointed Doug to the role of project manager and again assumed leadership of the company. He explained:

> It was an absolutely major transition point in a business sense because it called on me to be the leader of the company. I couldn't stand making a loss and I couldn't stand seeing the business go down the tubes.

Internally, Bruce knew he needed to build the Macpac culture to improve both the domestic and international success of the company. During the early years a family atmosphere had developed, and McIntyre worked hard to create good conditions for his staff. It was an important time in terms of Bruce's developing management philosophy. He realised that, although he was the owner of the business, his staff also had a sense of ownership. In 1985 he employed a communications consultant to do a cultural audit of the business. She interviewed a third of the 100 staff and made recommendations, including introducing performance appraisals for all staff and monthly meetings involving the whole company. McIntyre also brought in a productivity consultant in 1986, but not without some resentment from the staff, he explained:

> I faced a bit of a battle to get him in the building because people in manufacturing obviously felt that they could do their job. But it led to fantastic changes and people realised that they were probably behind in the way they were doing things. So we never ended up with any permanent problems in that area. People tended to always want to do the best thing.

Efficiency increased dramatically, and within three years the cost of labour reduced from 25 per cent to 14 per cent.

The management team were continually reading management ideas, and each developed particular interests. Early in his career McIntyre's financial knowledge was very limited. "It's amazing how far you can go in business without understanding finances", he said in hindsight, "but then it's amazing how much further you can go when you do understand them". McIntyre was interested in "sharp-bending", turnarounds, and the concept of profit sharing (which he introduced in 1987). Others focused on quality circles (which Macpac introduced in 1988), team building and production refinements. McIntyre promoted the idea of creating a highly communicative culture. His philosophy was:

> I wanted to reward people for their sense of ownership, and I wanted something which would get all the energies of the staff aligned in the same direction. I thought the profit sharing was the obvious thing that everyone in the organisation stood to benefit from.

The continual focusing on internal culture and structures, along with systems improvement, were happening simultaneously with increasing international success. In 1987 Macpac began exporting to Europe via a Dutch marketing agent, and redesigned packs for that market. Two years later it had entered the UK, Switzerland, the Netherlands and Germany, and eventually appointed a distributor for Europe. Macpac also experimented with broadening its appeal and designing packs for travelling and school or university use. McIntyre looked at manufacturing in Korea in the late 1980s, but decided the infrastructure there wasn't ready.

The 1990s: Developing the brand and culture

An unwritten, internal philosophy had encouraged staff to develop their specialist skills, but also to get involved and follow interests in other areas of the company. Thus McIntyre and Shelley Gabites developed their belief and commitment to local manufacturing and all the expertise and efficiency they were developing internally. The team culture was also represented in the "Macpac Quest", where teams of staff competed in orienteering, paddling, running and biking events. The head of sales and marketing described other benefits of the team structure:

> I always think one of the great Macpac attitudes is looking at the constraints of our ideas and deciding how we can turn them into positives. When we were edging into the UK market and supplying them directly, retailers there were saying, "You're on the other side of the world, and there's a 12 hour time difference". Well you can look at that as a big negative, or take advantage that we're actually 12 hours ahead and that we're working while they're asleep.

By 1990, sales had grown to $8 million, with 35 per cent of sales overseas. In 1992, Macpac started selling directly to Australian retailers, which were carefully chosen. By that time, McIntyre found that many people saw Macpac as an iconic New Zealand brand, yet the company had never focused on marketing. "We always kind of looked after the brand ourselves", he said, "and we simply believed that it had to remain true to its quality. We really just did a lot of talking about what the brand stood for". In 1992, he established a marketing team.

As the years went by, the skills of various employees influenced the production and operations of the company, and the company developed internal accounting processes and computer systems. After visits to Toyota, Nissan, Fisher and Paykel and Interlock, Macpac introduced Total Quality Management systems, and McIntyre also worked hard to ensure that management and staff never had an "us and them" attitude. The company had always had a casual clothing policy for all, and no parking or privileges for management. "We all got paid differently and we had different jobs", he said, "but it was just accepted as the way it was". In 1994-5 the company was restructured into teams. All performance reviews were changed to involve team performance. Shelley Gabites described the transition:

> When we went to a team-based environment, we wanted people to support each other...[asking]... "How do we continue to support the values that we have?"

The company's leadership team typically initiated ideas, and each team appointed champions to embrace the concept and decide how it was going to be resourced. The team environment led to a lot of collaboration across the company.

By 1996 the selling strategy of working directly with retailers had evolved. As in Australia, Macpac eliminated agents and began selling directly to retailers in the UK, followed closely by a similar arrangement for Europe. With the strong New Zealand dollar, exports declined and McIntyre tested Vietnamese manufacturing, but found the quality to be unsuitable.

Global market trends

With September 11 2001, Macpac's sales dropped overnight by thirty per cent and dropped by another ten per cent the following year. The outdoor industry experienced a massive shift from being hardcore, involving adventure travel, mountaineering, and multi-day tramping, to being softer and more focussed on fashion. The fashion end of the market continued to grow but the hardcore end collapsed. People stayed at home and stopped doing adventurous activities. The company did some market research and discovered that it was highly respected, especially by young people – which was good news – but was also seen to be quite elite and not taking a wider market perspective. When sales suddenly started crashing it was forced to take note of the broader market. Macpac had a very high quality product which many people said they did not need and were not prepared to pay for, preferring something less elite and cheaper.

Once again McIntyre came back into the company fulltime. When the market did not reverse, Macpac had to take some critical cost-cutting measures. The first cuts were not severe enough and the losses continued so Macpac concluded that it had to take almost all of its production offshore apart from small jobs and military contracts. Then it found it was playing catch-up as it was the last to go to Asia for its manufacturing. Macpac felt that closing down New Zealand manufacturing and going offshore did not make any difference to its customers, since they wouldn't know whether the products were made in New Zealand or not, but the retailers certainly knew when Macpac dropped its prices. Macpac thought that it would get rapid growth from this, but whilst there was growth it was far from massive and was hard won against competition with already firmly established positions.

For McIntyre and his management team, 2003 was the lowest point. As a company, they had always promoted a family business atmosphere, and profit sharing with all staff had been an integral part of the culture. When the financial situation became worse they had tried to "buy some time" and keep manufacturing in New Zealand. McIntyre did some financial modelling and realised that there was no way they could return to profitability with the status quo. As part of the company's communicative culture, management had always shared financial results with the staff, so when job cutbacks were finally announced in July 2003, few employees were surprised. Over the next few months in the build-up to the layoffs, manufacturing productivity actually increased and absenteeism and turnover decreased – a phenomenon that truly surprised McIntyre and his leadership team. By early 2003, McIntyre had committed to offshore manufacturing of some products in Asia, and by the end of the year they had eliminated most of their in-house manufacturing and coped with the disappointment of staff layoffs. With the offshore production up and running, Bruce started looking around for a CEO, to appoint someone who could manage the changed company. This time, Bruce was wiser and looked for someone who could create strategy so that he wouldn't have to come back in again in order to make it work.

The new business model

Staff

Macpac's recruitment policy had been to hire people who loved the outdoors and used its products. The expertise they brought to the company was invaluable, and this helped build a consistent company culture. With the reduced workforce, the management team had to revisit some of the role agreements and change the focus of some functions. From around 250 staff in 2003, with some 200 in production, and around 50 in sales and marketing, design and administration and IT, by 2006 Macpac had around 60 staff, with 10 in production, double the number on the sales team, and 12 in the design team and this was growing. Logistics, which managed the channels from the manufacturers to Macpac's markets and its offshore warehouses, had gone from 0 to 3 people.

Finance

Some of the overheads Macpac saved in manufacturing were spent on marketing and design, and this increased by 10 per cent in 2004-5. The company's new global network created exchange rate complications, and the company tried to keep a long-term view of the strong New Zealand dollar. Two-thirds of Macpac's products were exported, so it had a lot of foreign currency receipts. The company used external consultants to help develop a strategy to manage foreign exchange. With the majority of raw materials purchased by the offshore manufacturing partners, Macpac did not pay until the finished goods were supplied. With typically six to eight weeks before a product might be sold, this meant that Macpac did not have the financial burden of surplus stock kept as final goods. The new global workforce and increased travel needs required a new strategy for budgeting, and the company's bonus structure (which had previously been based on a sharing of 20 per cent of the profits) had also been revised.

Operations and Logistics

Unlike the simplicity of the old system, with one manufacturing plant and one warehouse, the three warehouses and seven manufacturing sites required a new operations plan. Having stock in the right place at the right time required sales trends and stock levels to be continually monitored. Sending goods from the manufacturers in Asia directly to foreign warehouses raised questions about quality control and how quickly they could handle repairs and revisions. In addition to logistics planning, measures and assessment systems were required to scrutinize the performance of suppliers. Production and logistics were two separate areas, with logistics running the warehouses and ordering the products and their distribution. Shelley, who ran the production side of things, travelled extensively at critical times, evaluating the manufacturers' performance as well ensuring that new runs were made to specifications. There was also a lot of internet and e-mail communication, and designs were often sent electronically.

Offshore partners

Macpac had 7 manufacturing suppliers, in China, Vietnam and the Philippines. With the offshoring decision, the company had evolved from being a New Zealand company to a global one. Though the New Zealand factory had been shut down, the company was indirectly employing more people than ever. The overseas suppliers were specialist manufacturers who made to specification. Bruce got on well with the Korean owner of the factory in the Philippines (who had been an engineer at Hyundai). He could see the local Filipino staff growing and moving through the ranks. In Vietnam, the factory was run by a Taiwanese, whom Bruce identified as a "real humanist" who cared about and wanted to educate his local staff. Bruce felt that the Vietnamese were learning quite rapidly because of his influence. However, the manufacturers in China were more difficult to work with.

In researching potential manufacturers, McIntyre had amassed a pile of folders at trade fairs over the years. The Macpac team got supplier recommendations, and even sought the views of some of their competitors. In the outsource relationship, Macpac's business was of low importance to those manufacturers: no-one was going to go under if Macpac pulled out, Bruce thought. Whilst Macpac was quite significant in backpacks, its much smaller clothing contracts were split between four manufacturers so none was getting very much business. It was useful, however, that Macpac's production cycle was in the opposite season from the Northern Hemisphere. In managing the offshore relationships, design, logistics and production had their own communication links. There were a lot of people communicating with these factories and it was up to the partners to manage the complexity.

In terms of efficiency, the Macpac factory had been a highly efficient unit, with fully automated machinery and a committed workforce. Faced with losses, Macpac had employed a world expert in production efficiency who had not been able to make more than a one or two per cent improvement and Macpac had needed ten, fifteen, or twenty per cent for production to be viable in Christchurch. So the cheap labour costs of Asia had been attractive, albeit on very antiquated machinery with variable quality control. Bruce wondered how long this might last, before the cost of labour increased and/or the Chinese made their own cheaper sewing machines. It was difficult to manage quality offshore: everything had to be specified and it was easy to overlook something basic that could go wrong, meaning a good deal of travel and communication. Whereas Macpac had a system of quality assurance, designing quality into the whole manufacturing process, the offshore manufacturers relied on quality control and the low cost of fixing errors.

On quality control, Macpac trusted the inspection processes of some of its manufacturers and allowed them to ship direct into

Figure 1 Macpac's Sales Performance 1999-2005 (1999=100)

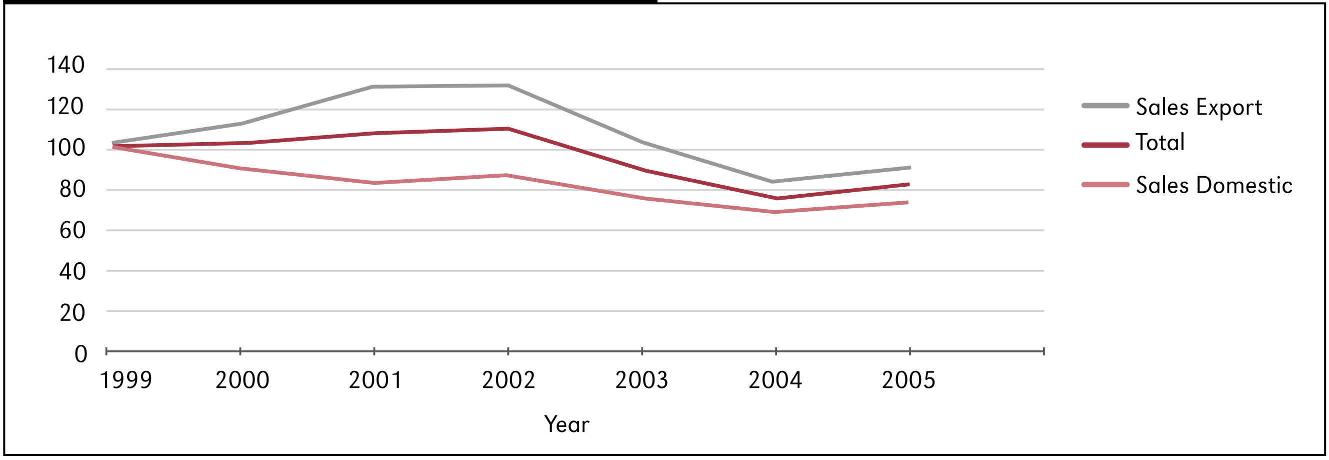
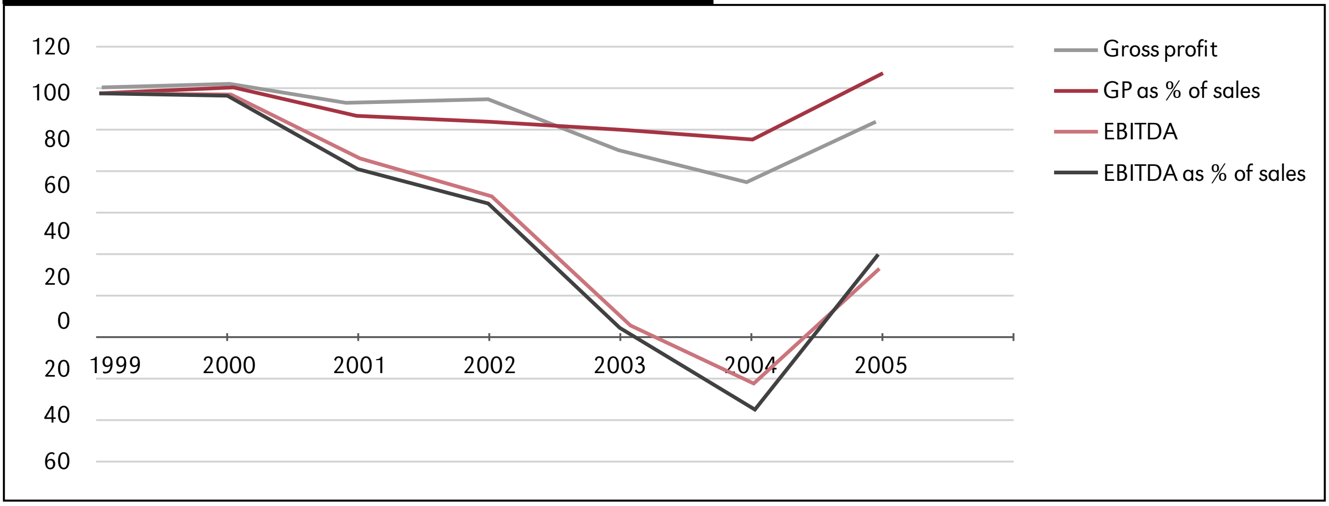


Figure 2 Macpac's Financial Performance 1999-2005 (1999=100)



Europe, Australia and New Zealand. For others, pre-inspections were done in New Zealand even when products arrived in Australia first (as Australia was only three weeks shipping time from Asia and New Zealand was four). The manufacturers were either visited by Macpac or air freighted random shipping samples to Christchurch before they could release the product. Another option for China was to employ someone in Hong Kong to do an inspection on Macpac's behalf, though the company had not done this as it was nervous about sending someone who did not know the product.

Sales

With 65 per cent of sales in overseas markets, Macpac's sales team (all young New Zealanders) were all based in Christchurch, though many of them spent 20 weeks per year on the road in Europe, North America or Australia. Having a NZ based sales team was a critical decision for Bruce, who believed that sales people living in New Zealand were more effective as they were close to the product, to the design and to the innovation. The big disadvantage was that air travel was expensive. A further challenge to growing international sales was competitors offering better margins each year, and more manufacturers in the market. Also, it was difficult aligning sales and manufacturing of the clothing ranges: compared with other product lines, the clothing market was much more volatile and less predictable. See Figure 1 for Macpac's sales. Figures 2 and 3 show Macpac's sales and financial performance 1999 – 2005.

Design

Since its beginnings Macpac had prided itself on being leading edge in design and innovation. Throughout the first years, McIntyre continually looked for new ideas in overseas catalogues and a defining moment occurred in the early 1970s when McIntyre was asked to make a copy of a pack purchased in the United States. The pack was crude, but had an internal frame and was the first McIntyre had seen of its kind. Compared with packs with wooden external frames the comfort of the internal frame was vastly superior. McIntyre made new models with internal frames and developed further insights when he designed and created packs for a group of local climbers who were going to Patagonia. The process provided important connections and insights with the climbing community. "It was at that point", McIntyre says, "that we became innovative. It was the birth of something quite different for the outdoors". The public at large, however, did not embrace his ideas immediately, and sales were dismal. In hindsight it was an important lesson in the essential intersection of design and marketing for the young entrepreneur. McIntyre explained:

> I had what I thought was the perfect tramping pack and hardly sold any. I realised that being very good at design was one thing, but that you've got to listen to the public. It was a lesson in marketing, so I made alterations that the retailers were asking for and the products just suddenly took off.

His next step was developing a catalogue to display his products on retail counters and to educate consumers: it included a section entitled "Packology". The impact was astounding, and Macpac was on the road to building a reputation with serious climbers and outdoor enthusiasts.

Following the restructuring of the company to offshore manufacturing, new resources were brought to Macpac's design group. In the two years between 2004 and 2006 design staff numbers doubled from six to 12, and felt less constrained, especially by cost, than in previous years. The new opportunity was to realise ideas and new products. The design goal was not to innovate with individual products, but to introduce ranges of products. In the heavily developed outdoor market, innovation was becoming elusive. McIntyre knew that the level of design talent needed to increase: "What we're wanting are world class products". He wanted an environment where people had the freedom to create, without bureaucratic and systemised tensions. To achieve these goals McIntyre employed a new design leader and Macpac became part of a pilot for a New Zealand government initiative "Better by Design". Through this process they realised that although the company had grown based on its product innovation, it was more product led than design led. As such, Macpac focused on becoming much more design orientated in its thinking, which was reflected in its marketing, branding, product development and strategy.

Marketing

As a result of the move away from a manufacturing focus to a company centred on design and marketing, Macpac also employed a brand manager and increased its investment in promotions and improving the quality of communication about the brand. One of the challenges was capturing the company's New Zealand heritage in a meaningful way, and exploiting the country's image as a wilderness and "untouched" paradise. McIntyre had seen a shift in the market for outdoor equipment, which posed a different marketing issue:

> The world's changed, so there aren't as many people travelling, and there aren't as many people going to the mountains as there used to be. They're not going as seriously as they used to, so we need to adjust to fit that new kind of modern, more urbanised form of outdoors, a less serious form of outdoors.

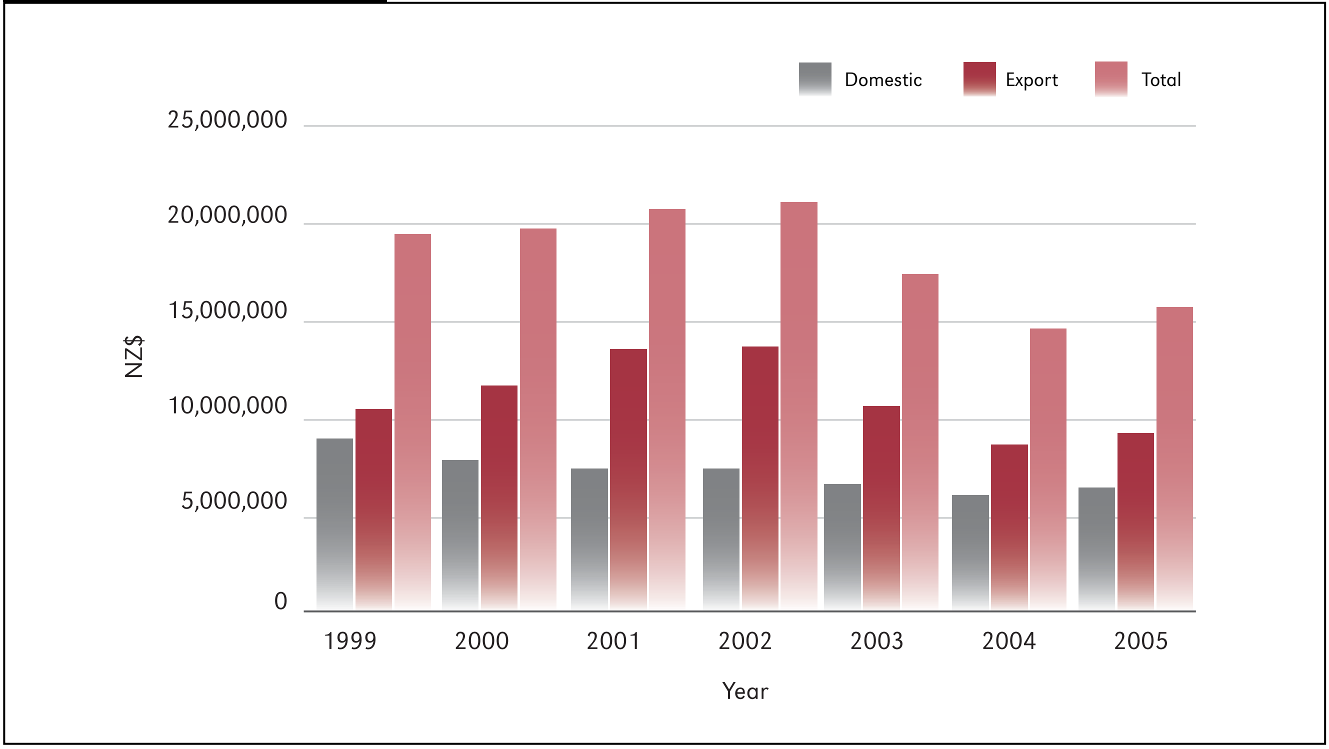
The company had to think more about its brand at a trade level, and learn more about what Macpac meant to its retailers.

Rebranding

In terms of the brand identity, Macpac had historically been strongly associated with the hardcore, high adventure, outdoor market segment. A newer challenge was to build a brand with more mainstream appeal. Whilst Macpac was particularly strong in New Zealand, it was almost equally strong in Australia. While the brand was quite strong in the UK it had a much broader appeal in Australasia than outside. Macpac had to some extent created the outdoor market in Australasia and the brand had grown as the market grew. Whilst its products retained their quality and performance levels, the market itself was not so elite (that is, the segment that demanded high performance outdoor gear). In the UK Macpac was strong, but again in the more specialist end of the market, and was also growing in Europe. The challenge was to break into broader sections of the mass market, for example, the light travel market and child carriers.

Macpac realised it had to put a lot more thought into the style and the aesthetic value of the products rather than just their performance. But the game was being played at a much more superficial level, and Macpac was slow in adapting to it: Bruce thought that it was actually about "the better looking mouse trap". New Zealand had an outdoor image and there was a lot of potential in that association which had not yet been realised in Macpac's products. New Zealand had a reputation for being friendly, clean and green and Macpac had to use this to create some uniqueness in the busy world market place. The specifications of Macpac's products were designed for the rugged terrain and

Figure 3 Macpac Sales 1999-2005



weather in New Zealand. Materials and construction techniques were chosen for this. Macpac's core customers wanted the freedom to go anywhere and to know they could forget about their gear: they were there for the adventure, for the people, with no question about the reliability of the gear. But in Continental Europe or Continental America, there was a different view of the world, Bruce thought, and customers probably did not need that level of quality or performance nor the need to think about it unless one was at the extreme ends of those markets. Macpac had a diverse range of products all of which sold in relatively small volumes but Bruce had no interest in making mass market products.

Leadership and succession

With an increasing dependence on teams to make decisions, McIntyre saw his role as the guardian of the company, questioning ideas and testing whether there was enough focus on its objectives. He had planned to look for a successor at the general management level, when the company returned to profitability. He wanted to ensure that the person had the right skills, and avoid the compromises he had made when he had previously relinquished the reins.

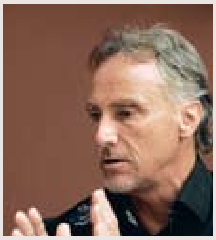
After advertising in New Zealand and overseas, a new General Manager had been brought in early in 2006, with an option to buy in. Graeme Lord had a background with Boston Consulting Group and had held senior positions, including export marketing for a major wine company, so had strong strategic planning skills, which Bruce saw as a powerful combination with his own more intuitive approach. Bruce was now able to start stepping back as he felt strongly that the person leading the company had to own the strategy. Bruce's personal goal was again to ease out of running the company, and by late 2006 he had achieved this by working at Macpac one day a week. Graeme Lord, Shelley Gabites and Bruce McIntyre sat on the board and the intention was to also have some new Non-Executive Directors join in the not too distant future. Bruce was satisfied that Graeme would lead Macpac successfully in the future as Graeme had been attracted to Macpac because of its values as well as its opportunities. As the owner and founder of Macpac, Bruce wanted to do all that was appropriate to support Graeme to recreate the Macpac brand as a highly values-based brand. He had been looking for someone who would take over and be aligned with Macpac values and push it along further. Bruce McIntyre thought there was light at the end of the tunnel. He was happy to support the company he founded which continued to design outstanding products in an industry he was still passionate about, while maintaining the strong company values which had underpinned Macpac for over twenty years.

2008 update

It was therefore surprising that in mid-March 2008 Macpac was sold. As it transpired, Graham Lord had resigned and Bruce once again faced the cycle of recruiting and appointing another CEO and doing a 3-6 month handover – a prospect he couldn't face. Instead he decided to look for either a majority shareholder to join him in the company or an outright sale. Mouton Noir, a Christchurch-based outdoor equipment company, offered to purchase the company and bought all the assets, IP, stock, plant and equipment. From McIntyre's perspective they were appropriate new owners of Macpac as they had a strong commitment to the outdoors business, and a clear strategy to go direct to retail and that was where Macpac had been heading. Following the acquisition of Macpac, Mouton Noir took the Macpac brand along with its own Fairydown brand and rebranded its NZ and Australian stores as Macpac. Mouton Noir kept about half of the management staff and was keen to grow the Macpac brand both in NZ and internationally. However, the international aspirations of the new owners will be realised in time as they currently change to a retail-led business in the Southern Hemisphere and continue the wholesale business model in the Northern. Reflecting on this chapter of the Macpac journey, Bruce felt a mixture of sadness and relief. He had put a lot of himself into Macpac and he was sad to let it go, but he recognised that there was a match of values and that the new young owners had the heart and spirit to take it forward. So while the founder moves out to pursue other interests and challenges the Macpac story lives on and enters a new chapter. ■

This case is not intended to be used as an illustration of either effective or ineffective handling of a managerial situation. Equipment shown in these photos is not produced by Macpac.

Expert Opinion



Peter Maire

Macpac is a classic New Zealand business. It has found success based on entrepreneurial action, innovative thinking and a "can do" attitude. These attributes served the company well in the early days and with Bruce McIntryre driving the company Macpac products gained a market reputation that punched above its weight particularly in the specialised niche market of mountaineering.

Yet for all its success and achievement, Macpac like many other NZ companies who have trodden a similar path, made many mistakes that could have been avoided if only they had networked with companies who had already "been there and done that". This is especially true of some of the challenges faced when first attempting to offshore manufacture and establishing a global sales structure.

There is an argument that perhaps an external board and bringing in other experience from someone involved in a similar industry may have been useful in providing insight and perspective different to what we bring to the table as Owner Managers. The decision to stay in NZ with manufacturing for as long as they did made the transition to off-shore manufacturing an even greater challenge than it needed to be. The decision not to go to Korea in the late 1980's when the major USA bag and pack companies were there may not have been a good decision and was most likely made without enough experienced input.

The other area this case highlights for international NZ companies are key issues underpinning distribution, channel to market, and marketing and sales decisions. There is a strong argument for NZ companies to develop their own distribution offshore with their own sales team offshore that sell direct to retail. Using distributors may well be a short term game unless the margins are significant. Critical questions then arise for companies like Macpac such as who is responsible for spending marketing dollars in export markets, how do they build brand in these markets and then what sort of agreement underpins the distribution model if indeed the distributors are responsible for marketing and branding.

Peter Maire is an Auckland-based entrepreneur and investor and founder of the successful technology company Navman.

Udo Zander

The Macpac case is a brilliant illustration of the interplay between internal company dynamics and the international business environment. It gives an insightful account of typical developments when a successful company, firmly grounded in a national context, becomes increasingly exposed to the winds of globalisation.

To understand the environmental challenges that contemporary entrepreneurs like McIntyre face, some important historical developments are crucial. Since the end of World War II, Western democracies have been set on a path of building an internationalised, open society under the motto: "If goods and services cross borders, troops will not". The institutional basis for "a new world order" was the creation of two international financial institutions: IMF and IBRD (later the World Bank). Free trade uninhibited by tariff barriers was promoted by establishing GATT (later WTO). Finally, OECD was launched to consolidate the system, and NATO was founded to protect the postwar "economic architecture". Unlike previous periods characterised either by unfettered global capitalism lacking an internationally shared institutional framework or by protectionism and mistrust between nations, the post-1945 design and reopening of a global economy bears clear signs of sometimes rather heavy-handed government intervention to keep the system in balance. It is the effects of well-functioning international capitalism that Macpac has faced since the 1980s.

Consequences for Macpac were the outsourcing of production to Asia, leaving New Zealand with R&D, design, marketing and branding. When reliable technology is increasingly taken for granted (good examples are cars and cell-phones), consumer preferences instead focus on excellence in areas like design, fashion, and life-style creation. Retailers like H&M have shown that to survive and prosper in industries with these characteristics, sophisticated logistics and product planning become vital, as is also evident in the Macpac story. McIntyre faced the usual complications and costs related to managing a multinational company and controlling foreign operations. Increased international specialization needs to be accompanied by the management of additional and new types of interfaces. Across cultures, soft skills of interpersonal, communication, and cooperation very noticeably turn into "hard currency", as do efforts to control the entire supply chain. In branded consumer products especially, there are innumerable examples of companies being hurt by moral or quality issues with offshore suppliers.

One of the most interesting features of contemporary international business activity is the changing and increasingly ephemeral nature of so-called "location-specific advantages". Macpac's origins and its continued presence in New Zealand is a major asset in terms of branding. Promoting these advantages has turned into a highly complex national marketing task where firms need the cooperation of government, NGOs, and players in industries very different from their own. Swedish furniture retail giant IKEA (that, notwithstanding its turnover of NZD 44 billion, shows remarkable similarities to Macpac in terms of corporate culture and management style) has turned flag-waving into an art, but is also fully aware of the downside, should the home country's image in some way be tarnished. As diverse activities as foreign policy and diplomacy, tourism promotion, and movie-making are all important for any company deciding to play the "Kiwi Card" in international markets.

Udo Zander is Professor of International Business at the Stockholm School of Economics, Sweden, and is currently Visiting Professor at the Victoria University of Wellington