Firm-level Manufacturing Export Study

A report for
Ministry of Economic Development
The Treasury
Trade New Zealand

Prepared by Andrew Gawith, Infometrics Ltd

April 2002

Andrew Gawith
Infometrics Ltd
PO Box 10068
Wellington
agawith@infometrics.co.nz
Ph 04 494 6070

Table of Contents

TABLE OF CONTENTS 3

EXECUTIVE SUMMARY 4

1 OBJECTIVES OF THE STUDY 6
1.1 Key features of the current study 7
1.2 Structure of the report 7

2 MANUFACTURING EXPORT PERFORMANCE AND CONDITIONS 8
2.1 Conditions and response 8
2.1.1 The currency 8
2.1.2 Manufacturers moving beyond Australia 10
2.2 Manufacturing export performance 11
2.2.1 Relative performance 12

3 THE STUDIES - A REVIEW 14
3.1 The coverage 14
3.2 The changing objectives 14
3.3 The main firm-level changes 15
3.3.1 Exports 15
3.3.2 Company ownership and management changes 17
3.3.3 Enhancing distribution 17
3.3.4 Strategy 17
3.3.5 Business practice 18

4 THE GROWTH PROCESS 19
4.1 Three phase growth 20
4.2 Key growth events 20
4.3 Evidence of growth thresholds 22

5 SCALE 24
5.1 Possible solutions 25
5.2 Thinking global 26
5.3 Conclusion 26

6 LOCATION 28
6.1 Investing in New Zealand 29
6.1.1 Value for money R&D 29
6.2 Investing offshore 31
6.3 Conclusion 32

7 OWNERSHIP 33
7.1 Ownership stock-take 33
7.1.1 Ownership and capital for growth 34
7.2 Ownership, vision and culture 34
7.2.2 Culture 35
7.3 Outgrowing owners 36
7.4 Conclusion 37

8 DISTRIBUTION 38
8.1 The basic recipes 38
8.1.1 Deal directly with customers 38
8.2 Distribution and growth 42
8.3 Implication for export development 43

Executive Summary

- The current study is the sixth in a series since 1991 that have tracked a group of successful manufacturing export companies. Thirty companies were interviewed over the first quarter of 2002 – 16 for the fifth or sixth time, and 27 for at least the second time. Three firms were interviewed for the first time.

- The value of exports from the 30 firms increased by $424m between 1998 and 2001, accounting for roughly a third of the increase in the value of manufactured exports (as defined in Table 3.1). The firms interviewed accounted for almost half (46%) of the increase in export receipts from the twelve manufacturing export sectors represented by one or more firms.

- Although the total value of manufactured export receipts rose by around 40% over the two years to September 2001, the volume of exports rose by just 6.5% over the two years. The fall in the currency largely explains the difference between value and volume growth. Six companies in this study experienced a decline in export volumes over the past two years. For all but one, the reason for the fall in export volumes reflected a change in business strategy - in three cases driven by a change in ownership.

- The main areas of firm-level change observed in the group of companies followed over the past decade include: strong growth in export earnings for most companies with all but two more than doubling their earnings since 1995; either management and/or ownership has changed in 80% of the firms; steady development and sophistication of distribution systems; a clear trend toward outsourcing manufacturing operations; greater commitment to R&D and more companies stepping beyond Australia (see section 3.3).

- There are a number of significant steps involved in expanding a business. One of the biggest is developing export sales. All the firms in this study have negotiated this first hurdle. Other significant growth steps include: changes in ownership, establishing effective distribution systems, ensuring production or supplies are sufficient to meet demand in foreign markets, developing and deploying new products and technology, and planning, negotiating, and managing acquisitions (see section 4.2).

- An important focus of this study was to probe the question of firm growth and what bearing scale, location and ownership may have on it. Given the limited number of firms interviewed and the biases inherent in choosing only those firms already exporting the value from this work relates primarily to the observations of actual firm-level behaviour and responses to the issues of scale, location and ownership with respect to their growth.

- New Zealand has few world scale businesses, and arguably none in the manufacturing sector. The small size of the local market is the most obvious constraint to building world-scale businesses in New Zealand. Scale is regarded as important primarily because it helps drive costs down and credibility up.

- Most firms interviewed for this study did not regard scale as a particularly important constraint to their growth. They were generally highly cost competitive and had established market credibility by concentrating on market niches. In practice firms appear to have formulated their business strategy to ensure scale is not an important constraint to their growth.

- This study throws up no compelling evidence that the location of the business is a major impediment to their growth. The fact that a number of companies (including a number of foreign-owned firms) are continuing to expand their New Zealand operations suggests location is a relatively minor issue in terms of overall company growth.

- Firms are pursuing a number of strategies that minimise the potential constraints to growth that may exist from operating out of such a small and remote economy. Some companies have developed sophisticated logistics/distribution systems to achieve world class delivery performance, allaying any concerns amongst customers about dealing with such a distant company. Others have changed their business strategy to concentrate on specific activities such as product development/ R&D that are less location or transport sensitive, while others have established strong relationships with large businesses within their key markets to give them a local presence and credibility.

- Twelve of the 30 firms interviewed are foreign owned and there has been a steady shift to foreign ownership over the past three years. Of the 18 companies that have experienced some change in their ownership since 1998 seven have involved a change from New Zealand to foreign ownership. Of the 12 firms where ownership has remained stable over the past three years, 10 are privately, New Zealand-owned companies.

- The majority of New Zealand-owned companies are not contemplating moving offshore or seeking foreign ownership to extend or accelerate their growth. In some cases the strong opposition to such ideas could potentially compromise their growth.

- Distribution is one of the most critical steps exporters take. The characteristics of the product and the nature of the customer base, as well as the stage of export development have a big bearing on the appropriate distribution strategy for companies. From this and earlier studies there appear to be at least five general distribution strategies: deal directly with customers (suits one-off product exporters); owned distribution (in order to achieve tight control over the selling process and receive good market feed-back); use foreign owners distribution channel; invest in retail outlets; use an independent distribution agent (either very strong relationship with powerful distributor or small scale agents).

1 Objectives of the study

One of the most valuable aspects of the work undertaken in these studies is the perspective it provides on changes and issues confronting companies. The longitudinal nature of the work yields benefits in terms of being able to observe the success or otherwise of particular strategies, especially in the way they affect export growth. One of the areas highlighted by this longer-term study of 30 firms is the extent of the changes that have occurred in the ownership, management and performance of companies.

There are two broad objectives underpinning the 2002 study:

- To build on the increasingly valuable longitudinal information base that has been established from interviewing the same companies every two years for the past decade.

- To focus on the growth process within the companies interviewed and particularly the part that ownership, scale and location play in determining growth

We have identified firms that have grown significantly over the past decade and tried to isolate the main events/ factors that have influenced their growth. To provide a contrast, and perhaps highlight the important ingredients to growth, we have also identified a group of companies that have not grown (or grown only slowly) over the past decade and teased out the reasons behind their relatively weak performance.

In each of the in-depth interviews we have focused on the relevance of size or scale and location or distance from key markets, to the firm's growth performance. What advantages/ disadvantages does the firm see in its scale and location and what strategies has the firm developed to address any issues it perceives?

In the five previous studies ownership has cropped-up time and again as an issue affecting strategy, growth, investment, etc. Within the sample of firms covered in this study more than half have experienced some change in ownership over the past five years. An important objective of the current study is the impact ownership has on firms' ability to expand exports.

To an extent scale, location and ownership are related issues with respect to export growth.

The interviews build on, rather than replicate, the information collected in the Business Practices and Performance study of around 3000 firms. This study focuses on some specific aspects within the traditional areas - performance, strategy, marketing, labour market issues, finance and production. By visiting the same firms over time we are able to see how firms' perceptions of these issues change over time and how they respond to them, rather than simply observing them.

One of the weaknesses of this study is that it is narrowly based. Conclusions are being drawn from the experiences of just 30 manufacturing export companies that *have not* been randomly selected. Nonetheless, the firms represent around a third of the

increase in manufactured export receipts, and cover a range of firm sizes, product markets, type of ownership and performance. In this sense the conclusions are likely to reflect the experiences of a significant swathe of manufacturing export activity.

1.1 Key features of the current study

In this study we have interviewed 30 firms, 16 for the fifth or sixth time. Twenty-five of the firms interviewed this year were also interviewed in 1999. Three new firms were added, two of whom were founded since 1990.

The current study covers companies in the following sectors:

Sector	*Number of firms*
Clothing and footwear	6
Iron and steel products	2
Machinery and equipment	6
Electrical/ electronic	6
Communications equipment	4
Vehicle components	3
Other	3

1.2 Structure of the report

The current report is the sixth in a series that began in 1991. The reports provide an update on the state of manufacturing exports both from the point of view of aggregate statistics and also from the collective view of 30 significant manufacturing export companies.

In the next chapter we examine the performance of New Zealand's manufacturing export sector in the context of past trends, other countries' performance, and shifts in the composition of products and markets. We also comment on the economic environment faced by local manufacturing export firms over the past three years.

In previous reports we have focused on changes between studies. However, given the increasing history behind this series of studies we take the opportunity in Chapter 3 to outline some of the most significant changes that we have observed within firms and across firms since 1991.

A close examination of the firm-level growth process is one of the key objectives of the 2002 study, and it is the focus of Chapter 4. In particular we outline the characteristics that seem to be common amongst fast growing firms and those that appear to typify slower growing firms.

In Chapters 5, 6 and 7 we look in detail at the three broad issues that may have a bearing on firm-level growth amongst manufacturing export businesses - scale, location and ownership.

Product distribution has been a regular theme in previous studies. In this report we have allocated a chapter (Chapter 8) to a discussion of distribution because it is such a critical part of the growth process amongst export firms.

2 Manufacturing export performance and conditions

The conditions for exporting were particularly favourable over 1999 and most of 2000. The currency continued to depreciate, providing exporters with significant gains in terms of price competitiveness, and/or bigger margins. Furthermore, key export markets - Australia and the United States - were experiencing solid economic growth.

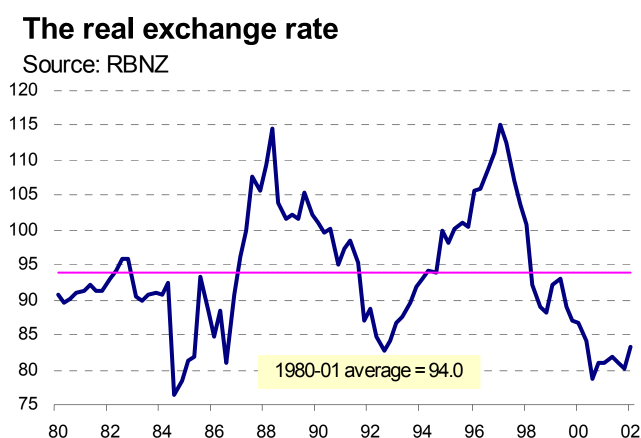
In this chapter we focus on the performance of New Zealand's manufacturing export sector as a whole in the context of the country's overall export performance and also against what other countries have been achieving. We also look at the how the companies covered in this study have performed against manufactured exports in total, to give some idea of their contribution to overall manufactured export receipts. But firstly we examine more closely the environment manufacturing export companies have been operating in and how they have responded to the conditions they have faced.

2.1 Conditions and response

2.1.1 The currency

At the time of the last study (May June 1999) the currency was retreating rapidly from the highs set at the beginning of 1997 (the time of the fourth study). The real exchange rate[1] fell by around 20% over the two years ended June 1999 and fell a further 13% over the following two years, to reach a 15 year low point in the first half of 2000. Perhaps more significant than how far the currency has fallen is that it has stayed so low for so long. Over the past two calendar years the real exchange rate has been on average 13% below its post-June-1984 average.

Graph 2.1



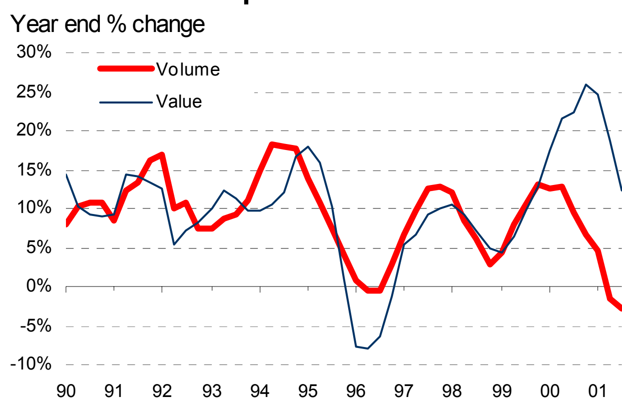
Source: Reserve Bank of New Zealand

On the face of it the low real exchange rate has boosted exporters' price competitiveness. That should have resulted in more sales and/or bigger margins. The value of manufactured exports has certainly increased (up $2bn or 40% over the past

[1] Reserve Bank of New Zealand

two years), but volume growth has been less impressive - just 6.5% in total over the last two years.

Graph 2.2



Source: Statistics New Zealand, National Accounts

There are at least four possible reasons for the relatively lacklustre performance of manufactured exports in the face of such a low currency:

- Manufacturers have been wary of expanding capacity on the basis of what they see as a temporary improvement in competitiveness thanks to the low exchange rate. They expanded exports rapidly on the back of a low exchange rate in the early 1990s only to be squeezed viciously between 1995 and 1997 by a relentless rise in the currency.

- Some manufacturers entered extensive forward cover contracts soon after the New Zealand dollar fell below 50cUS, thereby shutting out the gains available from a much lower currency for the past 15 months.

- Many manufactured goods have a high import content, which means that a lower dollar pushes up input costs, which simply erode the gains from higher export prices. In the same vein, expanding capacity often involves purchasing imported capital equipment, which rises in price with a lower dollar.

- The demand for some manufactured goods fell sharply over late 2000 and through 2001. Demand for telecommunications equipment, in particular, evaporated as telecommunications companies around the world suffered from over-capacity and deteriorating balance sheets. In the United States, industrial output and total business investment spending contracted over the year ended December 2001 in real terms by -3.7% and -3.1% respectively.

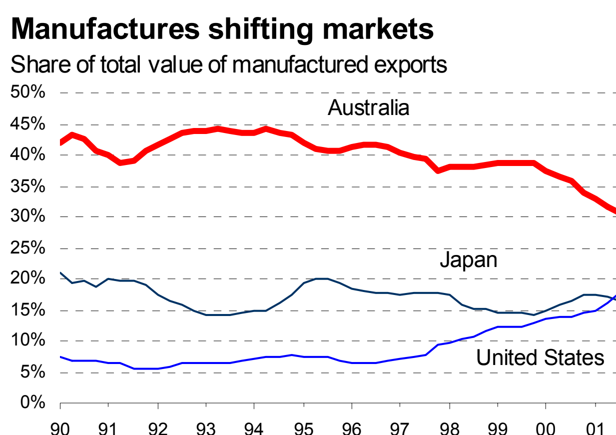
- Some companies have either contracted out their production to foreign plants or have shifted the focus of their business away from manufacturing to activities such as R&D, design product development. The result is a marked fall in gross revenue (export receipts), but not necessarily a fall in net profit.

2.1.2 Manufacturers moving beyond Australia

Over the past five years the share of all manufactured exports receipts generated from the Australian market has slipped significantly from over 41% at the end of 1996 to just over 30%. A similar decline has also occurred for the more narrowly defined elaborately transformed manufactured goods. At the same time, the share of receipts from the US market has increased from 6.7% to 17.6% over the past five years. GDP growth in both countries over that period has been remarkably similar - 3.6%pa for the US and 3.9%pa for Australia. The vast bulk of what growth there has been in manufactured exports appears to have gone into the US.

A large part of the reason for the substantial shift in market shares relates to the exchange rate. Firstly, the New Zealand dollar has fallen far more against the $US (40% between 1996 and 2001) than against the $A (7.6% over the same five year period), so we are looking at a valuation driven change in shares. But secondly, precisely because of the big exchange rate change, the US market has become more attractive and therefore the logical market to concentrate on when trying to expand export sales.

Graph 2.3



Source: Business New Zealand, Statistics New Zealand

The fact that the value of manufactured exports to the US has increased by over 300% over the past five years (ten times the increase for Australia) means that the market share shifts have been driven overwhelmingly by actual volume changes rather than simply valuation changes.

Of the 30 firms covered in this study, around seven have recently developed, or are in the process of developing, distribution of their product in the US. In virtually all instances Australia is still the most significant export market for these seven firms.

Although the Australian economy has grown impressively, Australians' demand for imports, especially for sophisticated manufactured goods, has been relatively soft. It remains by far the most important market for New Zealand's manufactured exports, but companies appear to be finding the scope for expansion increasingly limited.

New Zealand's share of Australia's imports of elaborately transformed manufactured goods has been shrinking since 1998. At the same time Asian economies have been

expanding their share of this import category. Following the Asian economic crisis manufacturers in the region would have had substantial excess capacity and low currencies - powerful incentives to expand exports to Australia.

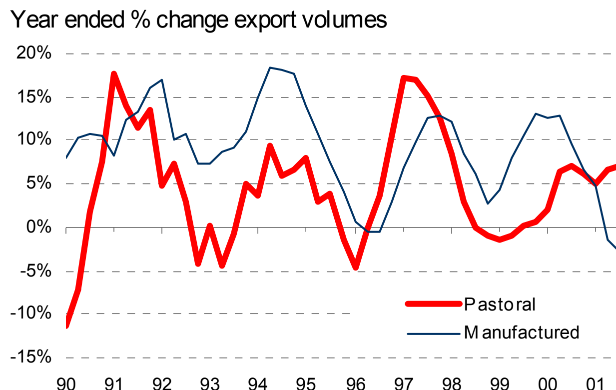
Furthermore, most New Zealand manufacturers involved in exporting focus on niche products and markets. It is entirely conceivable that a 3% share of Australia's total imports of elaborately transformed manufactured goods is consistent with reasonably full exploitation of the niche opportunities available, and that further growth would have to come from opening up new markets. Hence the growth in manufactured exports to the US over the last three to five years.

2.2 Manufacturing export performance

Manufactured goods led the surge in export and economic growth in the early 1990s. They are an important source of national economic growth, given the size of the manufacturing sector and the fact that its growth (primarily via exports) is not constrained by the natural limitations that hamper the primary sector.

We discussed above some of the reasons why manufacturing exports have not responded particularly positively to the lower currency. The fact that manufactured export volumes have fallen at the same time as pastoral exports (meat and dairy) have continued to climb (see graph) suggests a more fundamental change may be occurring.

Graph 2.4



Source: Statistics New Zealand, National Accounts

One possible trend in the manufacturing sector, evident from this and previous studies, that would be consistent with a slowdown in manufactured exports volume growth, is a drift toward outsourcing production.

An increasing number of firms covered in these studies have either shifted production offshore or have changed the focus of their New Zealand operations to concentrate on R&D, design and prototype or custom production onshore. As a consequence gross export sales recorded from New Zealand may decline. But from the companies' point of view they achieve the same, if not higher, net sales revenues. We are also aware of foreign owners requiring their New Zealand plants to ship product at cost - the margin is captured at the point of sale. This practice would further reduce the total value of export sales.

Four firms in this study clearly exhibit a decline in export earnings as a result of shifting production offshore or changing the emphasis of the business in New Zealand. Two to three others will expand their total international sales by significantly more than their recorded New Zealand exports as result of either transfer pricing their output or meeting increased sales from offshore factories.

The apparent stalling of growth in manufactured export receipts may reflect a general maturing of the sector and its export strategies. The focus on lifting gross sales - encouraged by award schemes based on forex earnings growth - is giving way to more sophisticated strategies that focus on the value that the New Zealand business can create and on management skills to co-ordinate activities across a number of businesses globally – manufacturing distribution. These changes will result in less emphasis on gross revenue, or the volume of production and investing in higher value activities such as R&D, new product development, prototype manufacture - the service end of the manufacturing sector.

Measuring the economic contribution of these less tangible activities (such as R&D) is more complicated than counting the number of swimsuits or alloy wheels exported. The growing level of foreign ownership and attendant transfer pricing further complicates measurement.

2.2.1 Relative performance

New Zealand's manufacturing export performance continues to lag behind the majority of OECD countries. In Table 2.1 below we have set out the latest data from the OECD that compares demand growth in relevant markets with actual export growth. In simple terms they measure the extent to which manufactured exporters maintain, expand or lose market share. If New Zealand manufacturing exporters expand their market share the numbers in Table 2.1 will be positive. Negative numbers imply a loss of market share.

Graph 2.5

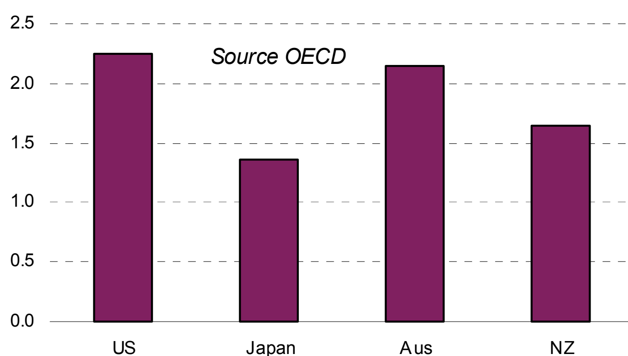


Table 2.1

	Relative Manufacturing Export Performance^											
	1991	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001****	***2002****
New Zealand	**7.9**	**4.2**	**3.1**	**-0.2**	**-8.1**	**-4.6**	**0.0**	**-0.9**	**-4.6**	**-6.3**	***-4.5***	***0.4***
Australia	14.9	3.5	0.6	-3.1	-4.1	2.9	-1.7	3.5	-4.2	-10.3	*0.2*	*-0.5*
United States	1.2	0.2	1.6	-0.4	2.5	4.0	6.5	-1.0	-2.9	-1.8	*-2.9*	*-0.2*
United Kingdom	-1.9	-2.6	-0.6	1.6	-1.7	2.8	-1.6	-6.2	-2.9	-2.7	*-1.8*	*-0.3*
Sweden	-5.0	-4.0	10.0	5.9	5.6	-1.5	1.2	-0.4	-0.1	-1.0	*-0.7*	*0.2*
Denmark	4.1	2.8	0.3	-3.8	-1.2	-4.6	-3.1	-7.2	1.2	-3.9	*-2.8*	*-0.2*
Ireland	2.4	4.0	9.7	4.8	13.9	2.3	5.3	14.7	6.5	8.2	*3.7*	*4.1*
Finland	-13.5	6.8	0.3	-3.0	-5.4	-1.0	2.8	-1.4	0.9	4.9	*1.8*	*0.8*
Spain	7.8	1.6	9.7	13.2	7.5	4.0	3.1	-3.3	1.7	0.3	*0.7*	*0.3*
Small OECD	*-0.5*	*0.0*	*4.2*	*0.9*	*1.5*	*1.2*	*2.3*	*1.0*	*1.0*	*-0.3*	*0.5*	*0.8*
Total OECD	*-1.9*	*-1.8*	*-0.3*	*-1.2*	*-0.8*	*-0.8*	*1.6*	*0.7*	*-1.9*	*-1.6*	*-1.2*	*0.2*

^ Based on the annual % change in real manufactured export growth less the weighted average % change in demand for manufactured imports in each exporting country's markets.
** OECD estimate*

Source OECD Economic Outlook

3 The studies - a review

3.1 The coverage

In 1991 Treasury commissioned Infometrics to undertake a study of at least 30 significant manufacturing export companies across six broad sectors:

- Clothing and footwear
- Iron and steel products
- Other metal products
- Fabricated metal products
- Electrical/electronic products
- Vehicle components

Some sectors, such as forest products and food processing, have been explicitly excluded on the grounds they are more closely linked to forestry and agricultural exports than manufacturing.

Every two years since 1991 Infometrics has revisited many of the original 34 firms. Nineteen of the firms interviewed this time were first interviewed in either 1991 or 1993. The sector mix has become less precise as some firms have closed down or withdrawn from exporting and new firms added.

The two main criteria for incorporating new firms have been:

- Their contribution to export growth
- Emerging export sectors or firms - five boat-building and related firms were brought into the study in 1997

This series of studies is focused on successful manufacturing export businesses - a very specific sample of New Zealand businesses.

3.2 The changing objectives

The first study, conducted in 1991, involved in-depth interviews with 34 companies across eight sectors. The sectors and firms were selected on the basis of the contribution they had made to raising manufactured export receipts over the preceding two years. The study focused on establishing basic details for each company – strategy, export performance, staff and labour issues, marketing, financial and production information and expected export earnings.

In the 1993 study the same basic data was gathered. But given the strong growth in manufactured exports (over 10%pa in real terms) and emerging capacity constraints, particularly with respect to labour, the emphasis was on labour issues. The focus was on firms' commitment to training and raising the quality and supply of appropriate people.

In light of the continued strong growth in manufacturing exports between 1993 and 1995, the emphasis of the 1995 study was on management and investment issues. Thirty firms were interviewed, 26 of which had been visited at least once before, ensuring continuity of information and the establishment of a useful longitudinal information base on manufacturing export companies.

In 1996, we undertook a short postal questionnaire. All firms from the 1995 study were questioned to gauge changes in performance and strategy in light of the steady appreciation in the exchange rate.

The 1997 study built on the information base assembled in the preceding three studies. The in-depth part of this study related to the investment process - how investment decisions were made and monitored and how they linked in with company strategy and the broader determinants of export growth.

There was a conscious move to identify and interview second-wave manufacturing export firms. To this end we interviewed ten companies for the first time in 1997 – five from the boat building industry and several new businesses in the electronics sector. In all, the 1997 study covered 40 firms, 20 of which were being contacted for the fourth time. Ten firms were asked simply to complete a postal questionnaire to maintain continuity of the basic information. The remaining 30 were interviewed face-to-face.

The 1999 study covered 31 firms half of whom were being interviewed for the fourth or fifth time. Besides extending the longitudinal base of the preceding studies the 1999 research programme focused on two primary objectives:

- Innovation and how it contributes to successful export performance
- Ownership/ and or management changes - why they occurred, and their consequences for the firm and its export strategy

Six new firms were added to the 1999 study mainly on the basis that they had started exporting relatively recently. The total value of exports from the six new companies in 1990 was $7m and by 2000 export earnings from these same firms had reached $87m. The details of the current study were outlined in Chapter 1.

3.3 The main firm-level changes

3.3.1 Exports

The combined value of exports in 1999 from the 31 companies interviewed was equivalent to around a quarter of total manufactured exports (Harmonised System (HS) categories 30-96 excluding wood and wood products, casein, wool, hides and skins, gold and aluminium). More significantly the growth in these companies' exports between 1996 and 1999 accounted for just under half (44%) of the increase in the value of total manufactured goods over the same period. In this sense the companies can be regarded as being a significant cross section of the firms that are at the leading edge of export growth within the manufacturing sector.

In the current study the exports from the firms interviewed represented around 27% of total exports from HS categories set out in Table 3.1. Between 1998 and 2001 (calendar years) exports from a defined group of manufacturing export sectors (the same as for the 1999 study discussed above, see Table 3.1) have increased by just over $1300m, or around 35%. Over the same period exports from the 30 firms in this study have increased by $424m accounting for around a third of the increase in total exports across all the sectors covered in Table 3.1 (compared to 44% in the 1999 study). If the sectors are restricted to those represented by firms interviewed then the

growth in exports from the firms accounts for 46% of the increase in total exports from the relevant sectors.

Table 3.1

Contribution to change in manufactured exports^

		Change $ million		Share of total*	Contributions to Change	
HS two digit sector	No.	1991-01	1998-01	average 96-01	1991-01	1998-01
Machinery	84	709.9	220.1	22.3%	25.1%	16.8%
Electrical	85	596.5	225.6	17.2%	21.1%	17.2%
Plastics	39	260.7	120.9	7.9%	9.2%	9.2%
Vehicles	87	159.8	122.3	3.4%	5.6%	9.3%
Ship & boats	89	152.8	118.0	2.8%	5.4%	9.0%
Optical	90	150.2	99.2	4.1%	5.3%	7.6%
Precious metals	71	144.1	79.5	5.8%	5.1%	6.1%
Pharmaceuticals	30	101.9	73.4	2.7%	3.6%	5.6%
Furniture	94	86.0	56.5	2.8%	3.0%	4.3%
Apparel	61-63	84.5	24.7	4.3%	3.0%	1.9%
Iron/steel products	72-73	75.9	40.5	11.4%	2.7%	3.1%
Tools/implements	82	50.8	5.4	1.7%	1.8%	0.4%
Rubber	40	36.9	0.5	2.2%	1.3%	0.0%
Books	49	33.2	18.7	1.1%	1.2%	1.4%
Carpets	57	31.8	3.6	2.3%	1.1%	0.3%
Glass	70	30.9	33.1	0.8%	1.1%	2.5%
Metal misc	83	23.0	27.0	1.1%	0.8%	2.1%
Footwear	64	20.1	8.0	1.1%	0.7%	0.6%
Copper & products	74	19.0	-3.1	2.3%	0.7%	-0.2%
Aircraft	88	18.1	15.3	0.4%	0.6%	1.2%
Toys/games/sports	95	14.9	6.7	0.7%	0.5%	0.5%
Fabrics textiles	58-60	10.0	3.5	0.8%	0.4%	0.3%
Stone	68	7.3	4.9	0.3%	0.3%	0.4%
Headgear	65	6.3	4.8	0.2%	0.2%	0.4%
Ceramics	69	2.8	1.6	0.1%	0.1%	0.1%
Misc manufactures	96	2.1	2.0	0.2%	0.1%	0.2%
Total		2829	1313			
Total from firms interviewed		776	424			
As a % of total		27%	32%			
Total selected sectors		2063	924			
Total from firms interviewed		776	424			
As a % of selected		38%	46%			

Source: Statistics NZ HS categories. Highlighted sectors are those covered by firms in this study.

^ Contributions to change relate only to the sectors covered in the table

** Share of the total value of exports from the sectors within the table over the period 1997-99*

3.3.2 Company ownership and management changes

It would be surprising not to have observed significant management and ownership changes in a group of fast growing firms over a period of ten years. In the current study only around five companies have experienced generally stable management and ownership over the past decade, and the majority of these are privately owned and operated.

Dynamic and fast growing businesses are more likely to experience management and ownership changes over time than are slow growing and conservative firms. This is an appealing generalisation, but not borne out by the evidence coming from the limited sample of companies tracked in these studies.

Of the nine or so companies in this study that tend to fit the "fast growing/dynamic" label, six have been driven by managers who have headed the company for the past ten years and who retain a significant shareholding in the business. In some cases ownership has been diluted as additional capital has been brought into the firm, but these fast-growing companies, generally, have had stable management and ownership.

At the other extreme, in the case of six companies that have experienced little if any growth in export sales since 1995, either management or ownership changes have occurred and in two cases both ownership and management have changed within the last three years.

3.3.3 Enhancing distribution

There has been a steady increase in the degree of ownership or control of distribution over the past decade or more. Whereas in 1991 only a handful of firms owned foreign distribution or retail businesses, today few companies would not have some investment in their own distribution system abroad.

Not only are firms investing more time and resources in distribution, they are also developing a wider range of distribution solutions, looking to better utilise their distribution capacity and making full use of advanced IT systems.

In Chapter 8 we look at the question of distribution in more detail.

3.3.4 Strategy

The most note-worthy changes in strategy have been:

- Contracting out manufacturing - led by, but not restricted to, apparel companies
- An increasing focus on the service components of business - distribution and design being the two obvious areas
- A growing emphasis on building brands
- A greater commitment to R&D - several companies have become specialist R&D centres for foreign parents
- Moving beyond Australia, with the US gaining the most attention. This is backed up by aggregate data (see section 2.1.2)

3.3.5 Business practice

There has been a marked lift in the quality and sophistication of key areas of business practice in the companies covered in these studies over the past decade. The areas where most change appears to have occurred include:

- The degree of discipline devoted to developing and pursuing strategy
- Recognition of and commitment to technology and R&D
- Management and development of staff with some companies now having a strong commitment to building and sustaining a clear people-oriented culture
- Familiarity and use of information technology, ranging from basic use of e-mail and the internet, through to comprehensive systems involving all aspects of the business (eg web based point of sale data integrated with stock and ordering systems)
- Financial management and the ability to raise capital – improved access to capital reflects, at least partly, better managed businesses
- Increasingly sophisticated distribution arrangements
- The ability to attract high quality international business partners and to negotiate valuable licence and partnering agreements with much larger foreign businesses

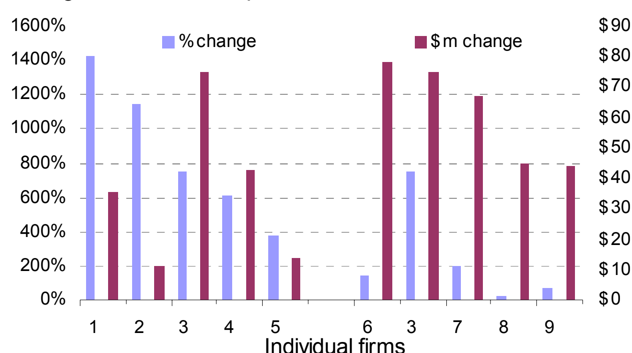
4 The growth process

Firm-level growth is seldom a smooth process - it is buffeted by external factors such as exchange rates, market access, competition, and internal shocks, such as changes in management or ownership, or changes in key relationships. Fundamental to the growth process, though, is the drive and vision of the owner(s) and the management team (in some cases these are one and the same).

The companies covered in this study are all exporters and have therefore cleared one of the major growth hurdles for New Zealand-based businesses. The questions are how have they fared since they began exporting, and what major expansion points, if any, have they had to work their way through?

From this small sample of 30 firms, five have more than quadrupled their export receipts since 1995. Between them they have added over $200m to total exports over the past six years – about the same as annual wine exports over 2001. Another four companies have added more than $40m each to their export receipts since 1995, but from a relatively high export base in each case.

Graph 4.1



From their growth experiences we seek to identify key growth stages and common features underpinning the growth process. We contrast these observations where appropriate with the experiences of slower growing firms within the group of firms interviewed.

All five fast growing firms are, or were, driven by owner managers. Two have been purchased by foreigners within the last three to four years, two have taken on outside equity, while one (the youngest) remains totally owner-operated. Owner management is by no means a pre-requisite for fast growth. Indeed it is often more strongly associated with slow growing businesses - capital constraints, an aversion to risk and a concentration of expertise on one aspect of the business are common characteristics of owner-operated business.

The four firms in this study that have lifted export earnings significantly (in absolute dollar terms) are all well established businesses where there is a clear separation of ownership and management. Two are foreign owned, while the other two are New Zealand owned companies that have been driven by founder manager-owners.

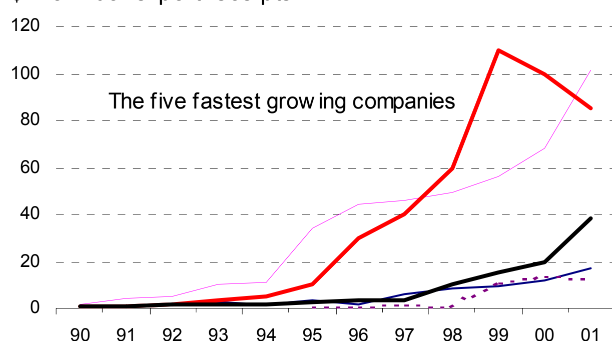
4.1 Three phase growth

Firms might be expected to follow an "S" shaped growth path. Typically the early years (two to five years) in exporting are dedicated to learning, and establishing the systems and structures that can support sales growth. Some companies enter exporting with a new breakthrough product. The product sells itself for the first year or so, or until competitors react. From there the company begins to conform to the more traditional model, albeit from a higher sales base.

The middle phase of growth is often very rapid. The distribution channels are in place, the product has been tweaked to meet market requirements or the product range has been fleshed out with R&D underway to deliver new product on a more continuous basis, credibility has been established, etc. There are examples within this study of firms' sales expanding at between 50% and 100%pa through this phase of growth. The next stage is where sales begin to plateau, or in some cases decline as a new company model is implemented. This stage often coincides with a change of ownership or direction for the company. In the graph below we have set out the export growth path for the five fastest growing companies from the group interviewed.

Two of the biggest exporters have both had new owners within the last three years. In one case the change of ownership has given the company's growth a boost by providing a world wide sales network and access to key new clients. In the other case, sales have contracted as the strategy for the New Zealand operation has changed to being more of an R&D centre than a manufacturing business. The next two biggest companies are in the second stage of growth. Sales seem likely to climb rapidly over the next two to five years, at which point, (or before) ownership changes may alter the growth path significantly.

Graph 4.2



4.2 Key growth events

There are undoubtedly major events that either stall or boost growth. Some are within the firms' control and others come as external shocks or opportunities. The following list is by no means exhaustive and is based on information gathered from the firm interviews.

- **Taking the plunge** into exporting is probably one of the most important events influencing a company's growth path. Around 10 of the companies in this study

began exporting within the last 12 years (two within the last five years). The impact on growth is not necessarily immediate or significant, as the above graph would suggest.

Table 4.1

Firm growth*

Nominal value of exports sales (index 1995=100)

Firm	90	91	92	93	94	95	96	97	98	99	00	01
1	20	37	93	107	98	100	120	141	154	188	215	234
2	103	107	90	97	96	100	112	88	63	43	53	35
3	35	46	58	66	79	100	93	118	145	155	195	200
4	60	45	75	111	101	100	86	80	81	95	113	150
5	72	128	133	121	127	100	116	111	106	98	107	119
6	64	54	67	84	121	100	72	143	179	198	212	257
7	76	89	96	111	111	100	107	146	153	230	230	260
8	38	57	89	75	76	100	169	177	181	192	231	125
9	113	169	197	211	127	100	141	169	310	423	493	704
10	28	29	36	48	62	100	100	115	127	144	138	167
11	60	48	78	88	87	100	106	107	112	119	119	246
12	49	60	72	73	97	100	79	99	98	121	153	172
13	33	30	61	68	77	100	92	112	154	150	192	196
14	131	126	103	116	127	100	138	114	126	160	179	244
15	40	61	70	75	81	100	115	103	93	105	114	111
16	17	16	18	35	83	100	99	65	43	71	190	57
17	14	28	47	78	50	100	44	161	236	253	339	478
18						100	78	78	79	100	147	193
19	6	12	15	29	32	100	129	135	144	165	200	297
20	10	10	20	30	50	100	300	400	600	1100	1000	850
21	44	49	61	82	101	100	107	104	122	130	147	157
22	35	35	47	69	90	100	84	110	129	151	180	235
23	40	40				100	120	144	420	600	800	1520
24						100	100	200	100	1100	1400	1240
25	56	61	73	76	91	100	92	95	114	135	149	176
26	24	39	49	69	89	100	93	80	93	113	115	120

** Not all firms supplied data that could be used in this table*

- The next most significant event shaping firms' growth prospects is probably a **change of ownership**. (Interestingly, we have no evidence from these studies that ownership changes are a catalyst for firms *to begin* exporting.) But changes in ownership can deliver many of the growth triggers discussed below. The actual outcomes depend on the strategy of the new owners and the characteristics of the firm they are buying into.

- Establishing or changing **distribution** systems is an expensive, time-consuming and potentially risky event, but a crucial part of the growth process for exporters. Some companies approach this issue with a very clear idea of what they require and plan the action meticulously. Most companies have made mistakes in developing distribution and have been forced to repeat, to some degree, this stage of the growth process. Once achieved, the distribution step can be both an avenue

for growth as well as compelling growth - distribution can absorb a lot of investment that can only be justified by increasing sales.

- A step change in **production capacity** is an obvious growth event. The experiences of firms that have significantly expanded capacity highlight the dangers of what seems a positive step for growth. One company argued they were lucky to retain customers through the expansion phase because of disruption to deliveries and quality problems. Another contemplating a big expansion was particularly sensitive to exactly these issues. For some companies, consolidating activity on one site (in some cases a new site) brought real gains in process, communications and culture. Two companies were restructuring their production as part of their plant expansion projects. Specifically they were dividing capacity in two - one plant producing a few products on a more continuous basis (to get the benefits of scale) and the other plant sticking with a larger range of small-run customised products.

- Specific **technology** breakthroughs can be an important factor in influencing growth. In some cases the breakthroughs will be driven by the company. In other cases the market demands the company deliver specific technology. If it fails, its growth prospects are compromised.

- A closely related factor is the development of **new products**. They can signal a sharp change in growth especially if they meet a need in the marketplace that nobody else has seen or met. One company argued that if it had not developed a new product it would have lost sales - a potential negative growth event.

- **Acquisitions** are potentially very significant growth events. In previous studies we have discussed the two different approaches to growth - organic growth or growth by acquisition. Almost by definition, the former is not an event-driven process. There are at least eight firms in this study that have or are acquiring businesses as part of their growth strategy. In virtually all instances the acquisitions are small relative to the size of their existing business, and therefore are not particularly obvious (as yet) in the firms' growth trajectory.

4.3 Evidence of growth thresholds

At least six firms expect to have expanded sales from around $50/ $60m a year in 2000 to beyond $100m by 2005. The fact most of these firms are confident about boosting export sales beyond $100m (in some cases well beyond $100m) suggests they do not see any significant step changes, or barriers to growth through this range. We suspect, in reality, there will be important changes required as the firm expands.

In two cases the firm is simply continuing a growth strategy that has been in place for the last three to five years. One has completed a large plant expansion that was predicated on substantial sales growth, which has already been largely signed up to. Acquisitions (some already completed or under negotiation) will play a large part in the growth of the remaining three companies.

To sustain steady growth from $50m to well beyond $100m is likely to require some changes in how the company is managed. That may involve a change in manager,

especially in the case of founder managers whose strengths often lie in driving the company through the early entrepreneurial stages of growth, (see section 7.3 for more discussion of this issue).

5 Scale

Work is being done on the relationship between firm size and business growth[2]. The lack of scale, in its widest sense, appears to be a factor in inhibiting firm-level growth and, in turn, overall economic growth in New Zealand.

The narrow focus of this study and the limited number of firms interviewed means that it contributes only indirectly to the work being done on the link between firm size and growth. The relevance of this study is that it probes individual export businesses about the relationship between the size or scale of their business and their growth.

Specifically firms were asked how the size or scale of their business affected their ability to grow. The issue of scale should not be confined to the size of plants. Scale is important in terms of bargaining power both in selling output and buying inputs. It is important in attracting labour, especially skilled labour and talented managers seeking a career path. Scale helps spread overhead costs, particularly with respect to distribution, market research, patents and meeting regulatory requirements.

Few companies in this study thought the lack of physical scale in their plants was a major impediment to growth. Indeed many claimed that their plants (just one aspect of scale) were either world scale, or close enough to make no difference to the cost competitiveness of their production.

Interestingly many of the clothing companies covered in this study sourced some, or all, of their product from larger-scale, lower-cost Asian manufacturers. The trend to outsourcing production is not confined to the clothing industry. Furthermore, shifting production to lower cost countries is not simply a New Zealand phenomenon. European and American companies have also shifted manufacturing capacity into Asia and Eastern Europe, not, presumably, because they lack scale in their domestic economies, but because costs (particularly labour) are lower in poorer countries.

Arguably scale gives business market muscle. Large companies are better able to withstand shocks. They have the resources to open up new markets and develop new products with far less risk to the rest of their business than would be the case for small firms.

Scale is probably more important in markets where price is an over-riding determinant of success. Having a low cost structure is an essential attribute for companies to compete in markets that are contested primarily on price - primary products and cars are two obvious examples. But even in these mega-scale markets there are niche players that survive and prosper by delivering highly differentiated product on a small scale. For example, within the New Zealand dairy industry, (which is regarded as a world scale business) a small specialist dairy company, Tatua, continues to perform well based around a high commitment to R&D. Price, however, is not their primary competitive strength.

---

[2] See Treasury web site Economic Transformation Project - http://www.treasury.govt.nz/et/ for a number of relevant papers.

The majority of New Zealand owned companies in this study tend not to compete on price. That may well reflect a sensible response to the fact they cannot achieve sufficient scale to enable them to compete on price so they are forced to pursue a strategy that does not rely on price.

In some cases the market muscle associated with scale is available to New Zealand based firms via foreign ownership – an increasingly common feature of New Zealand's businesses. Since 1999 three more firms in this study have been purchased outright by multinational companies. Twelve companies, out of the 30 interviewed, are foreign owned.

5.1 Possible solutions

It would be naïve to think that from a sample of 30 companies we could draw any robust conclusions about the relationship between scale and growth. But what this study can shed light on is how companies might be responding to the obvious lack of scale in New Zealand businesses, even those involved in exporting. Their responses indicate how firms are trying to circumvent the constraints to growth imposed by a lack of scale.

- Highly customised products - one-off capital equipment, sportswear specifically tailored for individual teams - where scale may be inversely related to the ability to deliver product at a reasonable cost. Many large-scale plants in fact find it unattractive to fulfil small specific orders.

- A growing number of firms are focusing on R&D, design and product development that requires a small-scale prototype manufacturing plant. Volume manufacturing is then contracted out to larger and lower cost plants. Their New Zealand operations are not trying to compete on scale, nor cost of manufacture. The issue then becomes what is a viable scale R&D operation? Judging by firms in this study, R&D units employing between 40 and 60 scientist/ engineers, focused on a particular technology niche, are regarded as commercially sustainable from an international perspective. All four predominantly R&D firms in this study are foreign owned.

- For some companies scale and cost are an issue for some components of the final product. Where this is the case, the components are sourced from large, low-cost plants offshore. But the final product is more task specific and less reliant on economies of scale to achieve success. In this sense firms are using scale where required. Fully integrated manufacturing plants are increasingly rare, particularly in the electronics industry.

- Lack of scale or critical mass can be helpful in breaking into new markets. The business does not pose a threat for existing players and therefore can become established before competitors react.

- Developing common or shared distribution systems would be a way for small to medium sized firms to generate scale advantages. Although there are no examples from the companies interviewed one or two raised it as a possibility. We discuss this in more detail in Chapter 8.

5.2 Thinking global

Another issue closely related to scale that might have a bigger bearing on long term business and economic growth is whether or not the business is genuinely global or simply a New Zealand export operation. Thinking and acting globally is likely to lead to a growth vision that is more akin to that of a large-scale business rather than a small business.

This shift in mind-set relates to the last of the stones in our Stepping Stones model:

- Identification and exploitation of company-specific competitive advantages rather than advantages derived from being resident in New Zealand. To be a genuinely global business the firm needs to develop competitive advantages that transcend individual country conditions - economic performance, tax and regulatory climate, labour market characteristics, etc.

As we indicated above, a number of firms argue they have world scale plants, and in the case of three or four of the firms interviewed the claims appears convincing (in all but one instance 95% plus of all output is exported). But they fall well short of being global businesses in terms of the scale of the business as a whole, and more particularly in terms of their thinking, management and governance.

For essentially New Zealand businesses that exhibit scale, few, if any, have appointed international managers or directors to help provide the sort of global vision that might be expected to exist in world scale businesses. Companies may have a large number of markets they sell a range of product to, own their own foreign distribution companies, and export 90% plus of their output, but they lack formal, international strategic input to their businesses. There is very little evidence of foreign directors or managers with knowledge of key markets, products or technology. Even the venture capital companies that invest in some New Zealand businesses lack that international connectedness. Interestingly, even New Zealand's biggest and best example of a global business - Fonterra – does not look genuinely global – there are few if any foreign directors, or directors with extensive foreign business experience.

Those companies that have world-scale plant in New Zealand are more often than not owned by foreign companies. Their parent companies are multinationals and their New Zealand subsidiary can generally access many of the benefits of a large-scale business without themselves being one. But, the fact that they are subsidiaries, and for many their primary contribution is production capacity, means they are vulnerable to the parent company deciding to shut down or shift capacity that is so far from the major markets. The local business must maintain a strong business case for their plants.

5.3 Conclusion

From the firms interviewed few chief executives viewed scale as an obvious constraint to growth. This is partly because many companies appear to have production facilities and cost structures that enable them to compete with larger scale international businesses, and therefore scale is not an obvious concern.

The small size and remoteness of the New Zealand economy makes it difficult for businesses here to become world scale. That may be a factor in holding back New Zealand's economic growth, but it would seem irrational for New Zealand manufacturing companies to pursue a strategy based around scale given the obvious difficulties in achieving scale in such a small remote economy. That does not mean that firms will not grow, and gain significant scale – they will. But achieving scale will not be the guiding rationale for such growth.

Successful manufacturing sector exporters tend to rely on factors other than scale to develop their business. The most obvious strategy is to concentrate on a particular niche that requires a reasonable degree of customisation. In some cases the niches are so small that larger companies ignore them, and in others the degree of customisation and flexibility required is simply unattractive to the sort of cost parameters larger companies work to.

Finally, gaining business scale may be becoming more achievable for New Zealand firms, via virtual business systems. There are examples of firms in this study that have built relationships with other larger scale foreign businesses that have led to a substantial increase in the activities of the New Zealand firm. We discuss this issue in more detail in Chapter 6.

6 Location

Our distance from export markets combined with the small scale of the economy and business activities create cost, knowledge, skills and infrastructure hurdles for manufacturing export companies trying to expand their businesses. But firms (both local and foreign owned) are investing to expand their plants in New Zealand suggesting that they have found ways around these distance and scale issues. In this section we look in more detail at why firms are investing in New Zealand and the nature of New Zealand-owned businesses investing offshore.

In our 1999 study we investigated whether location was a major issue for export businesses. The response from firms was that location is largely a “given” for their business and that there are more important issues that determine the success or otherwise of the business than its location.

One of the most obvious disadvantages for firms operating a long way from their key markets is the potentially high cost of transporting product to customers and the danger of not meeting delivery requirements. From the interviews, two important points emerge on this issue:

- Transport costs are generally a small component of the final value of the product - one company air-freights cast metal products to customers in America and Europe, another consolidates product manufactured throughout Asia in Auckland before dispatching it to customers in Europe and America.

- Because distance threatens delivery performance, companies have concentrated on ensuring the delivery process is monitored closely and meets market requirements. Two companies actually exceed market/ customer expectations in terms of delivering product to America and to the UK. They have turned a disadvantage into an advantage in the eyes of their customers. As one company put it "distance is a state of mind" - there are plenty of ways to resolve what appears to be an issue. Clearly, for some products distance and transport costs are not so easily dismissed.

Not one of the companies interviewed was looking to shift their business offshore. Indeed, unlike in earlier studies fewer than five companies raised the threat of moving or thought there were more attractive locations for their businesses. One manager talked about Australia being a better location for his business, but conceded that his Australian competitors would prefer to supply the Australasian market out of New Zealand - the conclusion being that New Zealand was a better location for this type of business within the Australasian market than Australia.

Our interpretation from some of the interviews is that there are companies whose small size and location make it more difficult for them to build their export sales, especially in larger more developed economies. Their lack of credibility, both in terms of size and perceived ability to deliver from such a distance, do handicap their growth.

6.1 Investing in New Zealand

Six multinational manufacturers have invested in their New Zealand plants over the last four years primarily to expand capacity. A further six New Zealand-owned firms have invested, or are about to invest, in new manufacturing capacity or consolidating existing capacity. In some cases the new investment has (or will) result in a significant increase in production, all of which is destined for export markets. The fact that these decisions are being made and implemented suggests that distance from markets is not an insurmountable impediment to growth.

The rationale for investing or expanding here appears to revolve around at least five factors:

- The plant already exists with all of its attendant infrastructure and systems
- The owners live here
- New Zealand is a relatively low cost economy to operate in
- The financial and physical performance of the plants matches or is close to world benchmarks
- Unique production characteristics – highly flexible, short run manufacturing capabilities that help fill gaps in markets the international group is servicing
- There is valuable IP sitting in R&D units in some firms.

6.1.1 Value for money R&D

There are at least four examples of firms in this study where foreign companies have invested here specifically to access the R&D, IP or product development capabilities of the target firm in New Zealand. In all four cases the new foreign owner has focused the New Zealand business on R&D and product development. Manufacturing has been either abandoned or downsized to concentrate on manufacturing prototypes of newly developed product.

Although the four companies do not provide a sound basis for drawing strong conclusions about New Zealand being a good location for R&D and related activities, the argument is supported by an increasing number of New Zealand owned firms concentrating on the same activities. The shift away from manufacturing amongst New Zealand firms is not confined to those in the clothing industry.

So what is the logic behind New Zealand being a preferred location for carrying out R&D, design and product development/prototyping work? For the firms at the heart of this issue the argument appears to rest on three main factors:

- R&D/design costs are lower in New Zealand than in most other developed economies, reflecting our relatively low per capita incomes generally.

- Multi-skilled people rather than pure experts commonly manage and staff New Zealand R&D operations. This tends to make them better at approaching and solving problems than their counterparts in say the US, where there may well be a much greater depth of expertise but less ability to utilise it effectively in delivering required outputs.

- R&D teams tend to be more stable because there are few employment alternatives for such specialised individuals within a small economy - a perverse location

advantage. Two companies observed that it was far easier for them to hang on to good R&D staff than was the case in the US, and one firm noted that their US parent was impressed with their ability to source specific inputs locally (one-off tooling, for example) compared to the experience in the US. Again, small economy characteristics appear to provide specific benefits for some activities. Although specific engineers may be more difficult to attract to New Zealand businesses than European or US companies, once they do accept employment here they tend to stay. The latter reflects fewer opportunities to switch employment in New Zealand and possibly the "quality of life" arguments often associated with living in New Zealand.

The second factor is particularly important because it is consistent with comments made by companies in previous studies and may well represent a more sustainable competitive advantage than simply lower salaries and a less fluid labour market. In simple terms New Zealand engineers and designers may be able to offer something valuable to the rest of the world, something foreign investors have shown an appetite for. The characteristics/ circumstances that appear to be important in terms of New Zealand's engineering and design abilities include:

- Living on the edge - several companies pointed out that being so distant from the major world markets meant designers and engineers were less cluttered in their thinking. They were more inclined to come up with fresh ideas that were genuinely new to the market. Space in terms of time and distance are arguably as important to feeding inspiration as being immersed in deep markets full of ideas.

- Being in a small, remote economy makes New Zealand engineers and designers conscious of the limited pool of knowledge and ideas they are exposed to locally, and encourages them to scan the international market for more. In contrast R&D engineers in larger and more advanced economies tend to think the pool of knowledge and ideas that exists in their economy marks the limits of what exists. Conventional wisdom is a more powerful constraint to thinking in advanced economies than perhaps it is in New Zealand, where engineers are less aware of what is apparently not possible. One company highlighted this issue with an anecdote about the use of a particular technology. The internationally accepted limit with respect to the technology tended to restrict its use to high volume network solutions. New Zealand engineers believed they could improve and adapt the technology for use in other parts of the network market. New Zealand engineers have proceeded with their work and have pushed the technology well beyond the perceived limits, thereby opening new commercial opportunities.

- New Zealand R&D operations are generally relatively small and highly focused making a strong team approach appropriate. These factors work in favour of smaller projects, which reinforce the value of multi-skilled engineers. Large, more complex projects, require greater structure and individual expertise and are therefore better suited to larger economies where the deep expertise is more readily available. Firms involved in larger scale research projects in New Zealand are far less convinced about New Zealand engineers and designers having any unique qualities. The interest in New Zealand R&D capabilities probably reflects the fact that New Zealand is well-suited for some R&D projects. A better

understanding of why New Zealand is attracting foreign investment in R&D operations would seem an important aspect of trying to attract foreign investment.

The success of Team New Zealand's America's Cup campaigns highlights the potential of New Zealand's approach to R&D, design and product development and tends to emphasis many of the points outlined above.

The engineering and design characteristics discussed above are probably determined more by our economic and business climate than by individual New Zealanders. That follows from the fact that a significant proportion of people working in New Zealand R&D establishments are foreign born. Furthermore, R&D labs internationally would typically have a high mix of nationalities, reinforcing the idea that local "environmental" factors play a strong role in determining the characteristics discussed above.

6.2 Investing offshore

The most obvious offshore investment New Zealand based companies make is in distribution facilities. We have observed in previous studies that a key part of the growth of manufacturing export companies is the decision to invest in their own distribution operations internationally. That process is continuing, with even relatively mature exporters still looking to expand their ownership of distribution. The stronger the distribution network, the more the company looks like a global player prepared to source product from around the world and send it through their sales network. The location of the original business becomes less and less relevant.

The other area of business where location may compel firms to invest offshore is manufacturing. At least four reasons might underpin such a decision:

- The pursuit of lower cost manufacturing - the clothing industry
- The logic of being close to key markets - low value product with high transport costs
- Tariffs make it sensible to manufacture inside the market
- Non-tariff barriers continue to be a significant factor for many exporters[3]

Only two or three companies directly own (or are likely to) offshore manufacturing capacity out of the 30 firms interviewed. It seems much more common for firms to contract out production to solve one or more of the above issues.

An important outcome of the shift away from local manufacture is the need to develop a whole new range of management skills:

- Negotiating contracts with offshore manufacturers
- Developing a clear strategy, or set of criteria, for attracting the right partners to undertake the manufacture of goods either under contract or via a licence agreement
- Setting up and managing the logistics required to co-ordinate inputs, manufacture, and delivery of product to distributors and in some cases final retailers (there are at least two firms in this study that exhibit the relevant skills)

[3] Standards New Zealand has commissioned a survey of non-tariff barriers. The work suggests that New Zealand exporters lose nearly $1bn a year, and that non-tariff barriers are prevalent in New Zealand's major export markets – Australia, US Japan and UK.

- Developing tailored marketing and retail support for individual markets

At the core of these skills is the ability to manage relationships between independent but mutually dependent businesses rather than an ability to manage huge command and control conglomerates. The new global businesses are just as likely to be based around alliances that co-operate along a supply chain than single large-scale vertically integrated multinationals.

For most New Zealand firms their small size, lack of financial resource and distance from key markets encourage them down the relationships/alliances route to global growth. The emergence of the above skills is therefore a reassuring trend. It may also imply that New Zealand based business need not be particularly large in the conventional sense to be globally significant.

A growing number of companies in this study are developing the skills to build global businesses. They have clear strategies and procedures in place that are able to be replicated or expanded to underpin substantial growth. One company has refined its approach to finding businesses to manufacture its products under licence to the extent it has secured a major US manufacturer and is looking to negotiate a European licence agreement. Another firm has a logistics system that enables it to restock retailers three times a week on the other side of the world, and another has developed a virtual distribution system that has gained it a reputation as a top-performing supplier to UK retailers.

6.3 Conclusion

New Zealand's time and distance from major export markets, plus the small size of the domestic economy, appear to make it a relatively unattractive location for a successful export business. Why, then, do global companies have any part of their business located in New Zealand? In most cases the answer can be traced back to the founder being a New Zealander. Several businesses are here because they started here for specific policy reasons – tariffs, and regional and business development grants.

The fact that a number of companies (including a number of foreign-owned firms) are continuing to expand their New Zealand operations suggests there are effective strategies the allow firms to get around location disadvantages. From the firms interviewed for this study there is no compelling evidence that the location of the business is a major impediment to their growth, although some companies have had to work hard to develop an effective response to the hurdles that do exist.

The array of responses include: concentrating on niche products and markets that are less sensitive to scale and location issues; developing sophisticated logistics/ distribution systems to achieve world class delivery performance. Others firms have changed their business strategy to concentrate on specific activities such as product development/ R&D that is less location or transport sensitive, while others have established strong relationships with large businesses within their key markets to give them a local presence and credibility.

7 Ownership

The question of ownership was covered from a number of angles in our 1999 report. Specifically that report looked at:

- The reasons behind changes in ownership
- The range of exit strategies used or available to owners/shareholders
- Issues associated with foreign ownership

Below we update the state of firm ownership and changes in ownership, but the primary focus of this chapter is to look specifically at how ownership impacts on firms' growth, both positively and negatively.

7.1 Ownership stock-take

An increasing proportion of companies in these studies is foreign owned. Since 1999 four companies that have been part of these studies since 1995, or earlier, have been sold to multinationals or foreign companies. Whereas in the 1993 study six companies were foreign owned, in the latest study double that number are foreign owned.

Company Ownership

	Number of companies		
	1997 study	***1999 study***	***2002 study***
Owner/operated private	14	14	10
Managed private	4	4	7
Publicly listed NZ	6	6	1
Foreign owned	6	7	12
Total	30	31	30

The big drop in publicly listed New Zealand companies between 1999 and 2002 reflects two firms not being covered in the 2002 and three firms being taken from being publicly listed to unlisted or overseas ownership. In the current study 12 of the 30 firms experienced no change in ownership between 1999 and 2002. Of those 12 firms, ten are private New Zealand companies with all but one being still largely owner-operated businesses. Two are foreign owned subsidiaries and one is a publicly listed New Zealand company.

There are seven New Zealand companies where shareholdings have changed as new investors have been brought in, most commonly to provide additional capital to underpin growth. In some cases the new capital has allowed founder-owners to liquidate some of their equity in the business. A number of firms have taken on outside private investors shifting them from purely owner/operated private businesses to be managed private businesses.

Change in Ownership ***Between 1999 and 2002 of firms interviewed in 2002***	
No change	12
Change within NZ	7
NZ to foreign	7
Change in foreign	4
Total	30

Changes in the ownership and direction of foreign parent companies can have a significant bearing on the growth prospects for New Zealand subsidiaries - discussed in more detail below. In this study four of the 12 foreign owned firms had experienced some change in the make-up of their foreign parent company, ranging from a complete change in parent owner to minor changes in shareholding and or direction.

7.1.1 Ownership and capital for growth

As we have already noted, changes in ownership often reflect a need for more capital to finance growth. Virtually all such companies have been able to attract the required capital, although some companies grumble that new investors are buying into business growth stories too cheaply.

As new capital comes into the business it can set up new dynamics in the firm. Investors require an exit route that implies either a change in investors at some future date, or a public listing for the company. Such events require both careful planning and often changes in financial management and reporting systems, as well as governance. These are all management responsibilities in addition to delivering the growth the capital was for in the first place.

Some private companies rely on retained earnings to finance growth. That can limit their rate of expansion but is in keeping with their conservative approach to business and the priority they put on sustainability rather than growth for its own sake.

7.2 Ownership, vision and culture

For many firms, even within this collection of successful and fast growing companies, there is a real tension between wanting to grow and remaining a New Zealand business.

There is a strong loyalty to remaining a New Zealand business, located here and controlled by New Zealanders. This strategic imperative imposes some conditions on growth, the most obvious being:

- An unwillingness to contemplate foreign ownership even where that might bring considerable benefits to the company in opening up markets, access to technology, capital to grow, etc.
- A fixed location for the business in a small, remote economy is not particularly conducive to growth.

Few if any of the 18 New Zealand businesses in this study were openly contemplating moving offshore or seeking foreign ownership to extend or accelerate their growth. Indeed some were vehemently opposed to such ideas.

Does this mean that the growth of New Zealand owned companies is constrained by their conservatism or nationalism? That is certainly true for some firms - one admitted as much. But it is definitely not so for other New Zealand owned companies in this study. The rest, (the majority) lie somewhere between these two extremes. Few privately owned and operated firms consciously decide not to grow. But in many cases their pursuit of growth is cautious, reflecting their inherent conservatism and the impact on their relatively small-scale businesses of fluctuations in world market demand.

7.2.1 Foreign ownership

Foreign-owned companies cover the spectrum from no growth to rapid growth. Some foreign-owned manufacturing export businesses are in New Zealand for historical reasons (tariffs mainly) and simply follow instructions from the parent company. These may be to use the capacity as efficiently as possible, deliver specific (often niche or short run) products for the group, or simply stand by for further instructions.

These firms have little scope to develop and pursue their own vision. There are a growing number of foreign owned businesses that are run by local management teams who individually report to other managers offshore. This approach works against leadership and vision and is likely to constrain growth at some point.

In other cases, foreign ownership provides an expansion path for New Zealand operations, either by way of capital to expand production; a marketing and distribution network to sell product through; or a specific area of activity it wants the New Zealand business to concentrate on for the group (Invensys' Christchurch plant is the DC power centre of excellence for the multinational).

The purchase by foreigners of New Zealand operations would generally be underpinned by a clear business case, which might be expected to include growth. Interestingly, the most recent buy-ins by foreigners have tended to target particular attributes (patents, R&D, highly customised production expertise) of the New Zealand firm. In at least two cases the purchases will result in a decline in manufacturing export sales from these businesses, but an increase in their invisible foreign exchange earnings - R&D and product development services.

7.2.2 Culture

A number of privately owned companies have developed a strong culture that has a significant bearing on the decisions the company makes with respect to growth and how they go about achieving it. The embedded culture becomes a real asset when dealing with customers, distributors and suppliers - it helps develop the reputation and credibility that enables the firm to differentiate its products (whole business) from its competitors.

There is a wide range of culture/reputation attributes that we have observed from the 30 firms interviewed:

- Fix any problems that arise

- Work closely with the customer to ensure the product meets requirements selling a solution rather than a product.
- The product must look good, conveying pride in what we produce and a product people associate with us
- Everyone contributes to solutions, everyone has a stake in the business, a strong team culture
- People are paramount - whatever the business does it gives priority to the impact it might have on its staff
- The product must last

In most cases these cultural attributes are not written down, but are strongly expressed by the managers and therefore presumably clearly communicated to staff.

How important is culture to growth? It is crucial. It highlights the firm's strengths and therefore helps staff translate growth objectives into day to day priorities.

Two companies were so committed to nurturing their culture that they were concerned not to add too many people too fast to their business so as not to dilute the culture. In another instance the firm had noticed a difference in performance and attitude of staff when two uncommitted managers left. Another staunchly New Zealand owned and operated firm indicated that if, or when, the business is sold the culture of the buyer will be more important than their nationality.

One of the dangers of being heavily committed to maintaining the culture or character of a business, especially where people or the team approach dominates, is that it can lead to management inertia. Managers fail to change with the company and end up frustrating growth. This issue relates to a range of management roles but is typically concentrated in the manufacturing, sales and marketing areas. The difficulty with upgrading management may reflect not just concerns for maintaining culture, but also the relatively small pool of management talent in such a small economy. Firms outgrowing managers/owners is the theme of the next section.

7.3 Outgrowing owners

Fast growing firms are likely to eventually outgrow owners. To what extent do owners hold back their firm's growth because they are reluctant to hand over control (management and or ownership) of the business?

It is difficult to be emphatic about any conclusions in this area but there are some important issues that surround ownership of companies especially as they pass through various stages of growth.

As the business grows it becomes more complex, and in some cases less flexible. The bigger the deals, the more valuable the brand, the greater the commitment to R&D and development of new products and the more investors there are in the company, the less scope there is to run the business the way it was run in its early years. Often the founder manager is skilled at running a small but fast growing business. They know how to take risks and make their business respond to near impossible demands to secure and fulfil orders. These skills become a liability as the company gets bigger.

In some cases the owner manager's expertise changes or grows with the company, at least over a significant period of growth. In other cases the buccaneering style of management, so effective in the early years of development, does not change and the company's growth is compromised.

Sometimes the owner manager will recognise the problem and respond by appointing an outside manager to take the company forward - there are examples of this occurring in this study. There is no obvious growth point at which the change in management style is required, but it would be surprising for a company moving from around $30m of export sales to over $100m of sales not to require some significant changes in the way the company is managed.

Although changes in management might be expected to be linked more often than not with changes in ownership, the evidence from this study is not convincing. Of the fourteen cases where new managers have appeared in the last four years half have been in companies where ownership has also changed and half have occurred in companies with stable ownership.

7.4 Conclusion

Nearly two thirds (18) of the firms interviewed had experienced some change in their ownership since 1999, with seven of the changes being from local to foreign ownership. Of the 12 firms where ownership has remained stable over the past three years, 10 are privately, New Zealand-owned companies.

Eighteen of the companies interviewed are New Zealand owned. The vast majority of these companies indicated they were not contemplating moving offshore or seeking foreign ownership to extend or accelerate their growth. Some firms were strongly opposed to such ideas, which could ultimately compromise their potential growth.

The steady increase in foreign ownership is consistent with growing internationalisation and the Government’s desire to encourage foreign investment in the New Zealand economy. From this study it appears that foreign buyers are tending to target specific activities - patents, R&D, highly customised production expertise - rather than the complete business. In some cases the change to foreign ownership will result in a decline in manufacturing export sales from the business. Monitoring the export performance of the manufacturing sector may become increasingly difficult as firms concentrate on less visible activities and foreign controlled companies set export prices to suit their international business rather than their New Zealand business.

The growth of owner/operated firms is potentially constrained by the very attributes that were crucial to their early success. Owner/managers are not always able to change their skill sets and approach to business sufficiently to enable them to run a $100m business as successfully as they could a $15m one.

8 Distribution

In previous studies distribution has cropped up as a theme on a regular basis and, in our stepping stones model of export development, controlling offshore distribution is one of the key early steps.

Distribution is probably the most critical step in the export growth process. It can be one of the biggest overhead costs for exporters and it is an area where most companies admit to either making mistakes, or having to make changes. Distribution lies at the heart of the connection between what the market wants and what is supplied and is an important source of information for developing company strategy. Size and location mean that establishing international distribution systems comes earlier and is a bigger issue for New Zealand companies than is the case for firms in most other countries.

In this chapter we examine in detail the various distribution strategies that companies pursue and the rationale that might lie behind each of them; the role distribution plays in determining firm growth and size; and some implications for export development.

8.1 The basic recipes

Although there appears to be no preferred distribution strategy amongst the 30 companies in this study, there is one aspect that is common to the majority of strategies - that is ownership or control/influence so that firms can manage how their product is handled and presented to customers. Almost every company has modified or changed significantly their distribution strategy since beginning exporting.

We have identified five general approaches to distribution. There may be more and certainly there is a range of minor variants of the five strategies discussed below.

8.1.1 Deal directly with customers

Where a company sells a few expensive products - one-off capital equipment items - it is practical and logical to deal directly with customers (for example airline manufacturers). The direct approach is also appropriate where the firm sells to a few large customers. Selling components to the motor industry is a good example - companies that produce original equipment for a particular vehicle will tend to deal directly with the manufacturer or major component supplier. The relationship is strong and is based on tightly specified commitments on quality, cost, delivery, etc.

There are around four companies in this study that have distribution strategies centred around direct relationships between the New Zealand operation and customers. This distribution approach is typically associated with capital or intermediate goods.

There are several instances of companies building their exports around a single major customer. This strategy reflects the stage of development of the firm's export business and/or the scale of its business rather than the nature of the product or market. In the early stages the firm latches on to a customer that will absorb a big chunk of the output from the New Zealand firm. The benefit from this approach is that it gives the exporter its first big break (secure export earnings/cashflow) and a toehold in the market. But the risk is that the exporter becomes overly dependent on one customer and fails to develop a more sustainable distribution and export strategy.

8.1.2 Owned distribution

One of the clearest trends over the past ten years has been the steady shift to owning or controlling distribution. Companies will often start off using independent agents or distributors, and as they can afford to they set up, or buy, their own agents or distributors.

The need to directly control the distribution process relates to the fact that exporters believe that independent distributors do not devote sufficient attention to selling their products. This partly reflects the relative insignificance, or lack of scale, of the New Zealand exporter and perhaps the specialist/niche nature of the product. The incentive to push small quantities of a narrow range of products is likely to be weak unless there are big margins available.

An important benefit from owning the distribution function is that it provides direct feedback from the market about the company's products, and the market conditions that are relevant to the New Zealand business.

In most cases firms either buy into an existing distributor or they set up their own distribution businesses focused on selling just the company's products. Increasingly, though, exporters are looking to sell other company's products through these distribution channels to improve returns from the investment in distribution and to provide customers with a broader range of products. We discuss the idea of leveraging distribution channels in more detail below.

In 1999 we reported the following -

> "For those companies that have extended their ownership up their value chain over the past two to five years, the results have largely met expectations. One company indicated that it had been one of the biggest and best strategic moves they had made in the past half dozen years."

8.1.3 Distribution on a plate

One of the reasons why New Zealand businesses might look favourably on foreign ownership is that it offers access to a well-established international distribution network (e.g. BHP NZ Steel). That is true for the majority of companies that are, or have become, foreign owned. However, the apparent benefits of having distribution available on a plate are not always so positive in reality – at least three firms were suffering from being a bit-player within their multinational owner's distribution system.

At least two foreign owned companies in this study would argue that having to go through parent company distribution channels is creating as many problems as benefits for the New Zealand business. In one case the New Zealand business and its specialist products lack profile within the international group. The local chief executive's current priority is to lift the profile of his firm's products especially amongst the international sales force in order to win more sales. In the other case the company's parent has forced the New Zealand business to merge its distribution businesses in with the parent's network. The result is that it has lost its traditional

direct contact with the market and the parent company's distribution channels are far less responsive. The outcome is that they have lost a significant degree of control over their distribution and with it good knowledge of the market and key customers.

In both cases the experience has been the reverse of what New Zealand companies are aiming for in distribution - ownership and control – and highlight the potential downside of using parent-provided distribution channels.

8.1.4 Retail

There are a number of companies that have set up distribution systems right through to owning retail outlets. These "total distribution" systems are mainly confined to Australia and New Zealand but some companies have moved further afield with this recipe. This approach is confined mainly to the apparel exporters, but there are other businesses that have extended their distribution right to final consumers.

It is akin to the first approach above - dealing directly with customers. But the big differences are that there is a myriad of products and a large number of customers; it is a final product; and turnover can be rapid.

Typically the business is about building and leveraging a brand, hence the need to control the distribution to the end point. Good knowledge of the product is essential to enhance the brand and to capture customer feedback. We examine brand building strategy at greater length below.

Establishing such a comprehensive distribution system is expensive and creates a major business overhead. Consequently sales volumes are crucial to generating a satisfactory return from the investment. But one firm argued that there was little if any direct financial return from owning retail outlets, but they were a good source of cashflow and market intelligence.

Information technology plays a key role in these sophisticated distribution systems. For one company its logistics and distribution technology was probably its core competitive advantage. For another, IT systems were critical to a virtual distribution system that enabled the company's product to be shipped directly from the New Zealand plant to (independent) retailers in Australia and Europe. The company also had in-country free-call fax and phone numbers and local bank accounts, so that local retailers could deal with them just as easily as they could with local suppliers.

Most of the companies that own their own retail outlets will also use their own sales people to sell to independent retail outlets, or the firm will negotiate directly with department stores. In this sense own-retailing is one important part of a mix of distribution strategies. Certainly owning retail outlets is not seen as appropriate in all markets and not an exclusive approach for selling in any individual market.

8.1.5 Independent

There are two quite different strategies that revolve around using third parties to distribute the product.

The first is the most common approach to distribution for new exporters or those targeting a large number of markets with small amounts of product. It involves

finding an agent or company that will distribute the company's product in a particular market, and then negotiating the terms and conditions of a contract.

The second approach has not been obvious in previous studies and appears to be associated with more sophisticated exporters. It involves the New Zealand firm “tendering out” the distribution of the product. An important precursor to this process is establishing the credibility of the firm and its product(s). In one case the company set out to win public accolades for its products in the target market. The three or four firms that exemplify this approach tend to be very well prepared and invest considerable time and money “presenting to” pre-selected potential distributors. The intention is to have more than one top quality distributor wanting to handle the firm’s products so that they can select the best distributor and work closely with them on marketing and product presentation.

The resulting relationship is often more than simply a manufacturer-distributor relationship. In some cases the distributor will become a licence holder for the product, manufacturing and selling it. In others the distributor will invest heavily in building and pushing the brand and may become the logical buyer of the business. In yet another case the distribution business is a joint venture between the foreign distributor and the New Zealand manufacturer.

8.1.6 Summary

The characteristics of the product and the nature of the customer base, as well as the stage of export development have a big bearing on the appropriate distribution strategy for companies.

If the product is a capital item or a niche intermediate good it will generally be sold to a relatively small group of identifiable customers who will take large orders. That encourages firms to deal direct with clients and avoids the need to invest in expensive distribution networks.

Where the product is selling into a larger and more fragmented market (it may still be an intermediate or capital good) the sensible distribution strategy is likely to involve owning or controlling distribution. In a growing number of cases that is achieved via foreign ownership. The same is true for final consumer products where brand may be an important attribute. Being able to manage or control this process to the point of final sale is very important.

For new exporters or those with a very wide range of products and/or markets a mix of owned and independent distribution appears to be the most logical approach. As firms establish themselves in markets they tend to seek control of distribution. This may simply mean having their own sales person in the market rather than relying on an independent agent.

Some companies are pursuing sophisticated strategies to establish strong relationships with powerful in-market distributors. In some cases these relationships will result in licence and royalty arrangements.

8.2 Distribution and growth

International distribution systems are expensive capital investments. The fixed cost nature of distribution puts an onus on exporters to ensure they have sufficient sales to justify such a large investment. On the other hand companies can see that without an effective distribution strategy it is difficult to expand sales. The obvious tension between the size of the business (level of export sales) and investing in distribution produces an array of solutions, many of which are discussed above.

From this and earlier studies it is clear that distribution is one of the critical issues facing export businesses, and often denotes a major growth point. It is also the case that firms are on a learning curve with respect to finding a distribution strategy that is appropriate to their business. We have witnessed a number of changes in strategy, with some firms completely abandoning one distribution system in favour of another.

The searching process is consistent with the magnitude of the issue for firms and also the growth and development of the export business. What may have been a necessary distribution strategy initially because of low sales volumes and a lack of capital is replaced by a more sophisticated system later. The ideal distribution system is seldom able to be deployed in the early stages of export development.

8.2.1 The elements for success

Distribution is an integral part of a successful manufacturing export business, but from the firms interviewed for this study it is apparent that a good distribution system relies on a number of other areas of firm performance:

- The product must be credible and be able to stand out in the market. Companies that have sought-after products find it easier to secure good distributors or easier to justify setting up their own distribution.

- Product support for the distributor/retailer is crucial to backing up good products. There are companies in this study that provide a great deal of high quality support to the sales effort via catalogues, brochures, regular sales seminars, after sales support, web sites, etc. This support encourages strong commitment from independent distributors and/or retailers.

- Reliable and regular delivery is important to overcome worries amongst distributors and customers about dealing with such distant suppliers. Delivery is a major issue for New Zealand exporters and consequently they tend to pay more attention to it than local suppliers do. There are several examples in this study of exporters being rated more highly by their foreign customers for delivery and service than local suppliers.

8.2.2 Brand

Brands are becoming an increasingly important part of company strategy. For one company in this study, building a global brand was the concept behind starting the business. Brands are an important component of export strategy in at least nine other companies. In some cases firms have consciously pursued brand development, in others it has been a slow realisation that their brand is an increasingly important asset.

Establishing a global brand may be a logical route to international growth given the scale and location disadvantages faced by New Zealand firms. A recognisable brand that international distributors and retailers are keen to sell opens up the possibility for the New Zealand business to co-ordinate the other aspects of the business - manufacturing, design, logistics, sales support - to achieve something like a world scale operation. Businesses can contract out manufacturing to large-scale low-cost plants around the world, logistics and sales support relies more on modern technology than scale, and New Zealand appears to be able to deliver world class R&D and design output.

The key ingredient is the management expertise to pull these strands together on an increasingly large scale. There is at least one company in this study that is showing signs of being able to do the above, and there is another that has a clear plan to do so.

8.3 Implication for export development

We know that the high fixed cost of establishing an international distribution network is a significant growth hurdle for New Zealand businesses and that there are low marginal costs involved in raising the volume of product moving through an existing distribution channel.

The obvious implication is that exporters should be looking for more product to sell through their distribution networks. Some companies have recognised this and are working on expanding their product range to better utilise the distribution capacity they have invested in.

Some companies have even begun to sell other companies' products through their distribution network to lift returns from their investment in distribution and provide a bigger range of product to potential customers. So far there is no evidence from the firms interviewed that any of them have sought to collaborate on distribution with other New Zealand exporters. Two important pre-requisites would be that the products complement rather than compete against one another, and secondly that there is a common customer base (for example, international telecommunications companies).

Distribution networks will become a more valuable asset within export firms than manufacturing plant and equipment. Many apparel exporters have already proved this point. Given the critical nature of distribution it would seem to be a priority to identify best business practice in this area, and also a deeper understanding of strategies that are being pursued by our most successful export businesses.

The use of modern technology to minimise the fixed costs involved in setting up distribution channels and also to enhance their performance and degree of service to customers is evident from one or two firms in this study. But the potential technology offers to remote and small-scale firms in terms of distributing their product appears to remain largely untapped.