

Rod Oram's presentation to the Skills4Work Productivity Summit 2010
Hamilton, July 28th, 2010

Shrink Or Grow

**Seismic shifts...
...New Zealand's opportunities**

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Agenda

- Earning our keep
- How we rate
- Seismic shifts
- Leaders
- Doing it
- Shrink or grow

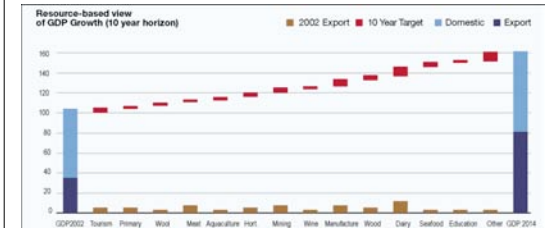
Hard work...poor pay

- We're very efficient at producing low value goods and services
- **But...we've hit the wall, economically, socially and environmentally**

Country	Output per hour worked (OECD Average = 100)	Hours worked per capita (OECD Average = 1000)
Iceland	105	125
New Zealand	85	110
Japan	90	110
Canada	105	110
Australia	100	110
Switzerland	115	110
USA	140	110
Italy	110	105
Greece	80	100
Spain	95	100
UK	110	100
Sweden	105	95
Finland	110	95
Denmark	115	95
Ireland	145	95
Austria	130	90
Italy	105	85
Netherlands	135	85
Germany	130	80
Belgium	145	80
France	150	75

We have to earn more

- The government's goal: catch up with Australian GDP per capita by 2025
- Domestic market too small to drive that, so we'd need to double the value of exports
- Can dairy double the value of its exports in real terms?
 - No it can't with its current strategy of incremental productivity increases
- Can tourism?
 - No it can't with its current reliance on a flood of short-stay, cheap Australians



What productivity means

- Productivity: value added per employee
 - Driven by complex multi-factor decisions
 - ...e.g. labour, capital, technology, business models
 - ...aggregates nationally into GDP per capita
- Achieved by:
 1. Cutting costs
 2. Raising output
 3. Increasing value...(greater sophistication)
- Over the last 25 years, we've done:
 - Well on costs and output
 - Poorly on generating more value
 - Hopelessly on capturing more value

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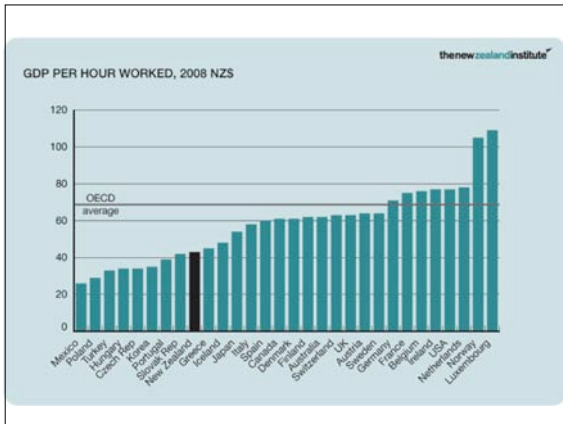
Grading ourselves

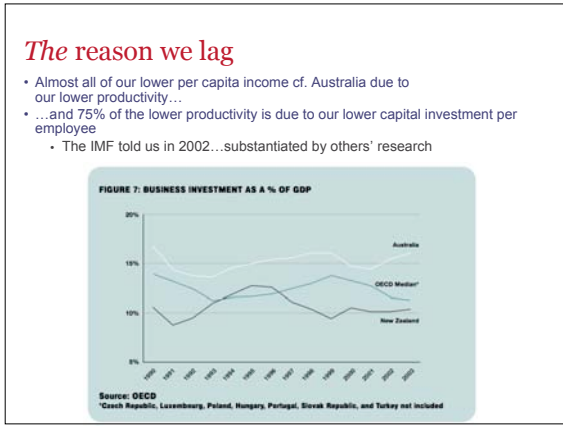
www.nzinstitute.org

	Grade	NZ Rank	Trend	Latest Value	2015 Target	
Social						
Life expectancy	B	11th	✓	80.2 years	82.8	VIEW
Unemployment	C	12th	✗	7.3%	4.0	VIEW
Inequality	D	23rd equal	⚖	Gini value 33	30	VIEW
Assault mortality	D	23rd equal	⚖	1.6 per 100,000	1.2	VIEW
Suicide	C	13th	✓	11.0 per 100,000	9.0	VIEW
Economic						
GDP per capita	C	22nd	⚖	\$46,883	\$56,000	VIEW
Household wealth	D	Not available	✗	\$429,236	\$575,000	VIEW
Labour productivity	D	22nd	✓	\$43 per hour	\$50	VIEW
Innovation and business sophistication	D	21st	✓	4.4 index value	5.0	VIEW
Educational achievement	B	4th	✓	1043 Combined PISA score	1057	VIEW

Grading ourselves

Environmental						
Agriculture and forestry land per capita	B	3rd	✗	2.9 Ha	2.4	VIEW
Water quality	C	Not available	✗	0.99 mg/L nitrogen	1.00	VIEW
CO2 concentration in the atmosphere	D	Not applicable	✗	387 ppm	395	VIEW
CO2e emissions per capita	D	22nd	⚖	18.5 tonnes per capita	15.0	VIEW
Invasive species	C	Not available	✗	\$3.4b cost	3.4	VIEW
Summary grades						
From the New Zealand Institute	C	Not applicable		C, Effort graded B-		VIEW
Your voice	-			Awaiting your grade		VIEW





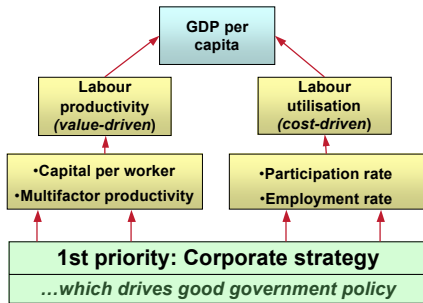
The reason we lag

- For every \$100 invested per worker on average in OECD in past 15 years...
 - ...Australia has spent \$120 and we've spent \$70
- Why? Because we have a tiny market...served by:
 - Imports
 - Domestic production from, typically, small companies with high labour intensity / low capital intensity = low productivity
 - They are efficient at producing low value goods = low productivity
- Small businesses don't have the scale and business models to justify high capital intensity
- They relied instead on mopping up excess labour & plant from economic reforms...
 - ...typically relatively unskilled people and old plant
- Big recent change: we began to see more investment from about 2002...
 - ...labour supply and plant capacity had tightened sharply
 - ...and it was time for new technology

...domestic dilemma

- The commodity dilemma, for example, with dairying:
 - Increasing *intensification* of farming..e.g stocking levels, water, nitrates
 - And / or...
 - Increasing *specialisation* of up-market products, niches and science
- Both strategies will intensify pressures on the environment
- "On every resource front - land, water, labour and capital - food & beverage production is pushing up against volume constraints. Environmental standards are limiting the type and form of land and water use in some parts of the country."
 - *Growing for Good:*
Parliamentary Commissioner for the Environment, 2004?
 - No - Food & Beverage Taskforce, an industry-government body, 2006

Choose your vehicle



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The world's seismic shifts... ...our new playing field

- **Rebalancing**
 - From extreme deficit and surplus nations to balanced economies
 - NZ: we have to borrow, spend less; invest, earn more
- **Geo-political: from developed to developing countries**
 - We need to deepen our relationships in Asia and South America
- **Demand: from consumer goods to capital goods**
 - But capital goods are not our strength...
 - ...'tho we can contribute R&D & IP to eg agriculture & clean tech
 - Tougher old consumer markets a big challenge
 - Reaching new markets will be hard
- **Pricing: from boom to budget**
 - Earning a living on high value not low prices
- **Customer service: from accepting to demanding**
 - Finding new ways to find, listen and engage with them
 - Eg social networking and other world-changing ways

...our new playing field

- **Relationships: from transactions to partnerships**
 - ...particularly highly strategic ones
- **Innovation: from incremental to radical**
 - To meet new needs... in new ways
 - Open innovation and other forms of collaboration
 - New opportunities for NZ companies to partner with global ones
- **Sustainability: from fringe to mainstream**
 - Measuring and managing environmental flows through our businesses
 - Push down the road to true sustainability
- **Finances: from cash-cow to investment**
 - Even better cash management...
 - ...to help with manageable investment steps in long-term strategies
- **Management: from tactical to strategic**
 - Need to collect, interpret and act on real-time data
 - Everything we do today is a piece of our big picture

The next 10 years

- Finance and capital conditions
 - Finance more expensive and less available
 - Market and regulatory constraints
- Less benign economic conditions
 - Higher economic volatility; Increased risk
- Low carbon-economy
 - New disciplines & technology
 - Far greater resource efficiency
 - Technology change accelerating
- Public losing trust in business
 - Scepticism over Anglo-Saxon model
 - More government intervention
- Social and demographic change
 - New responses to retirement, pensions
 - New business & government solutions
 - E.g. more flexible working practices



HARVARD BUSINESS PUBLISHING **Harvard Business Review**

Why Sustainability Is Now the Key Driver of Innovation
 by Ram Nidamela, C.K. Prahalad, and M.R. Rungtawattana

How Green Will Save Us: September, 2009 edition:

"There is no alternative to sustainable development.

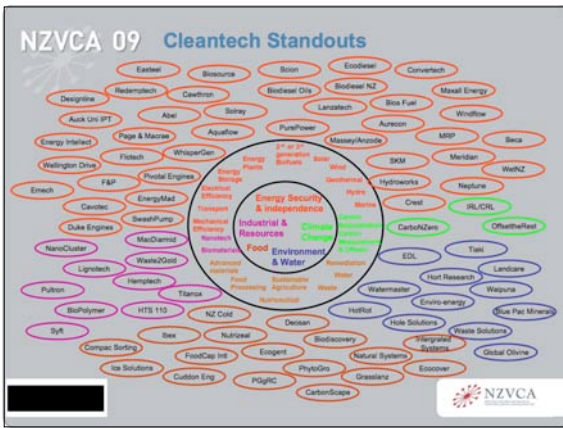
"Our research shows that sustainability is a mother lode of organisational and technological innovations that yield both bottom-line and top-line returns.

"Becoming environmentally-friendly lowers costs because companies end up reducing the inputs they use.

"In addition, the process generates additional revenues from better products or enables companies to create new businesses.


"In fact, because those are the goals of corporate innovation, we find that smart companies now treat sustainability as innovation's new frontier."





LanzaTech...clean tech leader

- Commercialisation agreement with:
 - Chinese Academy of Sciences
 - Baosteel; next pilot plant in China
- Makes biofuel from industrial waste gases
 - Turns greenhouse gas liability into profit
 - World pioneer of the science
- Auckland-based; NZ Steel pilot plant
- Big venture capital backing
 - Latest round US\$18m
 - NZ: Stephen Tindall
 - US: Vinod Khosla
 - China: Qiming Ventures




welcome

LanzaTech has developed a proprietary platform for producing sustainable liquid fuels and other industrial-grade products, at a much lower cost than is currently being achieved elsewhere.

Specifically, we have developed a full production process that can be used to produce hydrocarbons which have the same chemical composition as those that are currently produced from fossil fuels.

Indirectly, the gases are an inherently low cost, high volume, point source byproduct, produced in a wide industrial range.

LanzaTech's mission is to enable industries that produce high volumes of carbon intensive byproducts to generate the same low cost, higher volume products of liquid fuels.



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Vanguard NZ companies

- An exciting new class of NZ companies is emerging:
- Hallmarks:
 - Inspired products & services offering unique value
 - Originality born of NZ roots
 - Smart strategies for international markets
 - Astute management skills to acquire & develop human & technology skills; capital
 - Confidence & skills to collaborate with partners, suppliers, customers abroad
- Across the economy: domestic; import; export

NZ's distinctive management style

- Why did General Motors pick a New Zealander as CFO?
 - Chris Liddell chosen for his range of experience; management style
- We're skilled generalists
 - We're multi-taskers with knowledge & experience across a range of functions
 - Creative, fast-moving, self-starting, team-working
- Not expert specialists
 - Narrow skills; working in silos; hard to co-ordinate
 - Typical of large companies overseas
- **Impact:**
- On our companies:
 - Makes them quick, innovative, lateral thinkers
- On multinationals:
 - NZ subsidiaries pioneer new skills, products to take globally



Obo: Global community



- Simon Barnett was an importer...
- Became a manufacturer
- From 0% to 85% of world market in 15 years
- Intimate internet relationship with users
- Its global fans are its R&D dept.
- All from Palmerston North



Comvita: High science, high value

- 250gm of honey
- Clover honey..... 1
- Comvita wound care..... 25x
- Comvita wound dressing..... 55x



Sealord: Category power

- Waitrose: high-end UK supermarket; big on fish
- A NZ company manages the category for it...
 - Sealord...and its UK processing plant
- Takes huge commitment, sophistication and capability
 - ...and creates a valuable, long-term partnership
- And no NZ fish involved



Rakon: Sweet spot in value chain

- World leading supplier of radio frequency crystals for GPS and mobile phones
- ... until recent years, all from Mount Wellington
- 1967: Warren Robinson starts it
- 1972: Singapore subsidiary starts
- 1989: First cellphone crystals
- 1991: Large volume GPS crystals
- 1994: New factory
- 2001-02: Ground-breaking manufacturing process
- 2004: 3.2mm x 2.5mm crystal package
- GPS crystals: mid-1990s: US\$35 each to under US\$2 today
- 12-year sales growth averaged 66% per year
- 2006: Successful float
- 2007: European acquisition
- 2008-09: Indian and Chinese joint ventures



Icebreaker: Built new value chain

- Icebreaker...from sheep to Baa-code



...virtually

- Jeremy Moon's 15-year journey
 - Concept
 - Brand
 - Product
 - Design
 - Production
 - Marketing
- Learning, constantly...
- Today:
 - 1/3 of NZ merino clip
 - ...at premium prices, on long-term contracts...has changed farming practices e.g. farmers produce to spec, invest more
 - 2m garments a year
 - Using multinationals' Shanghai cluster
 - US drive; Oregon design centre
 - 200 staff



NZ companies: 10 transformations required

- | | |
|---------------------|------------------------|
| 1. Cost-plus | ⇒⇒ Free cash flow |
| 2. Tacit knowledge | ⇒⇒ Protected knowledge |
| 3. Own equity | ⇒⇒ External equity |
| 4. Labour intensive | ⇒⇒ Capital intensive |
| 5. Low technology | ⇒⇒ High technology |

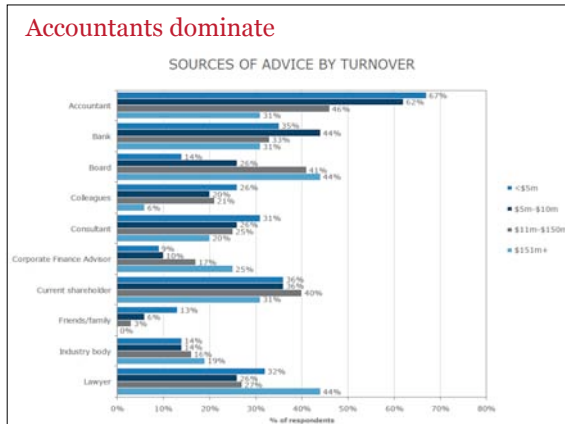
NZ companies: 10 transformations required

- | | |
|-------------------------|-----------------------|
| 6. Skilled generalists | ⇒⇒ Expert specialists |
| 7. Relationships | ⇒⇒ Alliances |
| 8. Value-based | ⇒⇒ Value chain |
| 9. Generic goods | ⇒⇒ Power brand |
| 10. Insecurity, poverty | ⇒⇒ Security, wealth |

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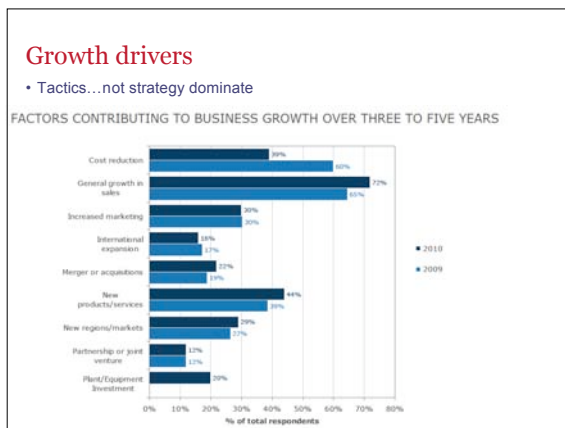
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Accountants dominate



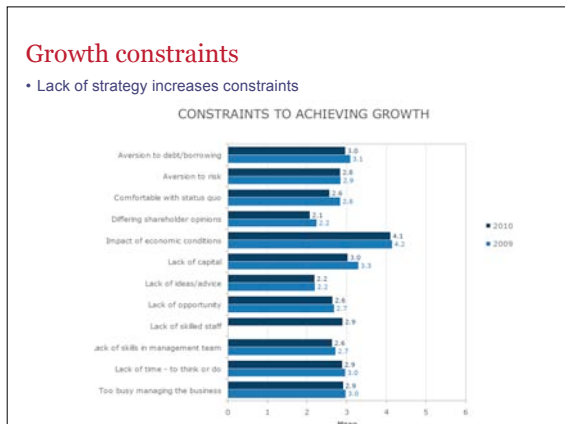
Growth drivers

- Tactics...not strategy dominate



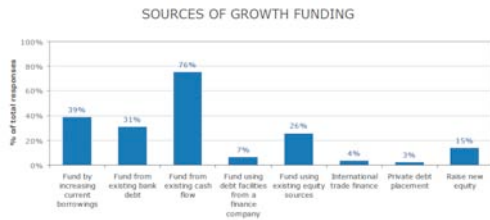
Growth constraints

- Lack of strategy increases constraints



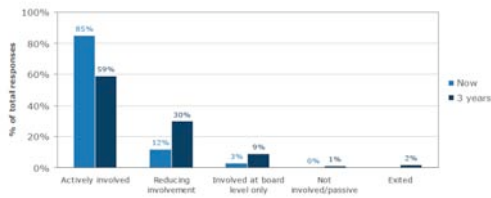
Growth funding

- ...and limits sources of funding



KEY RESULTS FOR SECTION 4 – CHANGE OF OWNERSHIP/SUCCESSION

- 26% say the current environment has delayed their time frame for ownership change (virtually the same as 2009)
- 13% of business owners who are considering succession have a formal succession plan in place (11% in 2009)
- 15% of owners considering succession have no succession plan of any kind (down from 25% in 2009)
- 39% of respondents have had an offer to buy their business in the last 12 months
- 70% of the offers to buy have come from industry players, with 24% from financial or private equity investors



Management matters

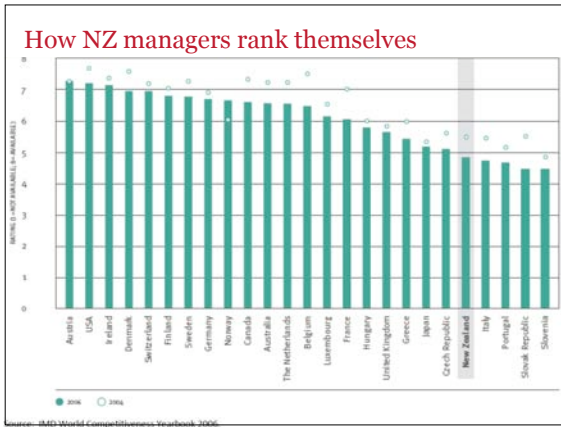
- NZ government-funded study of large and medium NZ manufacturers
- Study by London School of Economics and McKinsey...
...sub-contracted to University of Technology Sydney
- Comparisons with 16 countries



Management Matters in New Zealand – How does manufacturing measure up?

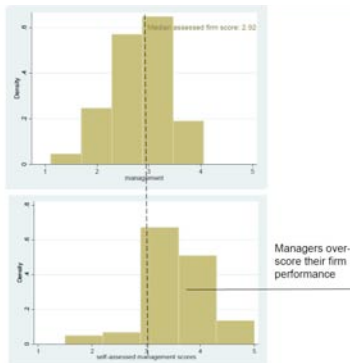
Findings from the New Zealand Management Practices and Productivity global benchmarking project
April 2010

How NZ managers rank themselves

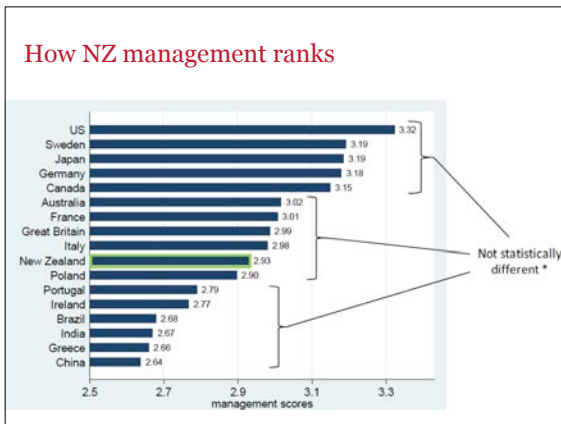


Self-assessment

- NZ managers over-rate themselves



How NZ management ranks

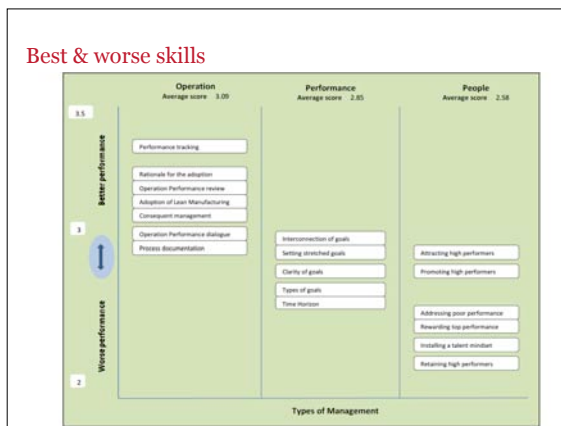


Ownership & scores

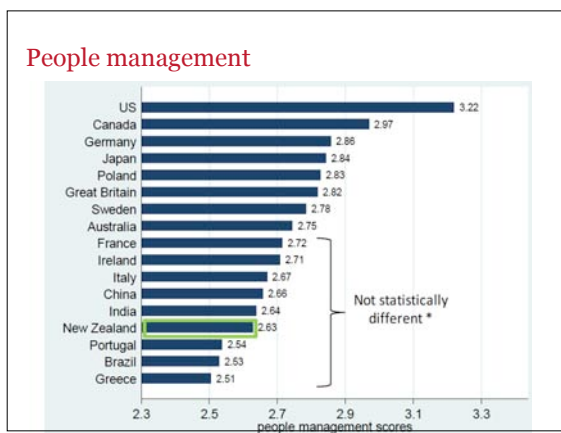
- Management of privately-owned companies rank lower



Best & worse skills



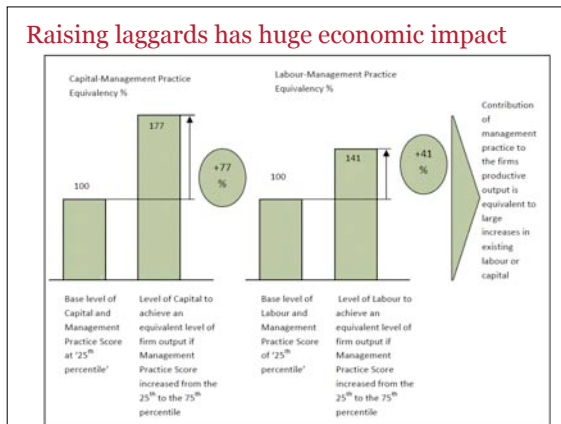
People management



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Raising laggards has huge economic impact



Our challenges

- Transform the economy
 - To high value, high sustainability (economically, socially & environmentally)
- Transform the labour force
 - To higher skills and pay; even high participation rates
- Transform government
 - To highly innovative, highly efficient operations...tactically and strategically
- To do so, we need to:
 - Be highly creative
 - Draw on our cultures, our resources
 - Seek partnerships at home and abroad
 - Adapt and adopt the best models, wherever they come from
 - Pioneer some of our own new models
 - Create solutions right for NZ...and exportable to the world
 - Be bold...and sure

Shrink

- The classic remedy: reduce activity so it fits your limited resources
- Less:
 - Consumer spending
 - Borrowing for consumption
 - Imports of consumer goods
 - Government spending and borrowing
- Danger:
 - We'll panic...
 - Lose confidence
 - Pull in our horns
 - Sit on our hands
 - ...crash the economy
- Result...
 - Five or more lost years of recession then anemic recovery

Grow

- Expand resources to enable more non-inflationary activity
- More:
 - Saving
 - Investment
 - Technology
 - Debate
 - Action
 - Ambition
- Opportunities
 - Plenty at home and abroad
- We'll progress
 - Gain confidence
 - Expand our reach
 - Build our future
- Result...
 - Long term prosperity and security

...New Zealand