

SERVICE SUCCESS IN ASIA

“Building a sustainable competitive advantage for New Zealand service firms in Asia: Spotlight on China and India”



CHINA AND INDIA

SUMMARY REPORT

Val Lindsay | Vivienne Shaw | Tim Beal | Malcolm Cone | Fergus McLean | Michel Rod | Nick Ashill

FOREWORD

Prior to the industrial revolution the Asian economies were more than half the worlds GDP, and it is to this state that we are rapidly returning. Asian growth is an undeniable, inexorable, megatrend that is fundamentally and permanently changing the face of this world. The statistics are staggering. In China alone the middle class is growing from 2% to 70% of the population over 20 years. 200 of the top 700 cities in the world will be in China, requiring 97 new airports and 30,000km of new railways over the next 10 years. Not only that, but China will have the biggest R and D workforce in the world by 2015. India is close cousin in this growth.

Against this backdrop there can be no doubt that services are in future going to play an ever more important part in New Zealand's foreign exchange earnings. The revolution in communications technology in recent years has dramatically expanded the capability of humanity to trade in ideas. New Zealanders are known to be good at developing innovative ideas. Some inspiring New Zealand companies are already doing just that; but as a country we need to have many more of our companies taking this development path.

This report calls for us all to embrace a much wider concept of what is meant by the term services than has generally been in our minds in the past. In New Zealand tourism has for decades been the dominant services earner of foreign exchange. In more recent times education services have become widely recognised as a key foreign exchange earner. Engineering consultancy services have been prominent for many years. Over the past decade or more information technology has grown apace. But this report shows that we need to widen our concept of services to recognise, and indeed encourage, for example, the often significant 'weightless' component of manufactured exports. We now need to focus more on the export potential we can generate from an even wider range of sectors, both from existing activities and of course those which can be developed in the new age of communication which is upon us.

It is highly relevant that this study is focussed on India and China. If there are any two countries in the world on which it may be said New Zealand's future trade will need to be especially focussed, it could be these two. Exporting tangible products to these two manufacturing giants will always be an especial challenge – not that we can't do that successfully – but we are convinced that an even more effective way will be through enhancing our foreign exchange earnings in these markets through an ever widening range of services.

I commend this report to all our current and future foreign exchange earners.

Peter Chrisp
Chief Executive
New Zealand Trade and Enterprise

ACKNOWLEDGEMENTS

The Project gratefully acknowledges the support from the following people and organisations:

The Foundation for Research, Science and Technology for funding the project

Victoria University of Wellington: The Research Office, and the School of Marketing and International Business

The Participants – Managers of New Zealand Firms (listed in Appendix 1), Managers of businesses and a range of organisations in China and in India

The Advisory Board members:

- David Pine (Ministry of Foreign Affairs and Trade)
- Charles Finny (Saunders Unsworth Ltd, formerly Wellington Chamber of Commerce)
- Richard Grant (Asia NZ Foundation)
- Andrew Butcher (Asia NZ Foundation)
- Michael Bird (Ministry of Economic Development)
- Andrew McCallum (Ministry of Economic Development)
- Gareth Chaplin (New Zealand Trade and Enterprise)
- Stuart Ferguson (New Zealand China Trade Association)
- Paddy Marra (India: New Zealand Business Council)
- Murray Holdaway (Vista Entertainment Solutions)
- Professor Rob Rabel (Victoria International, Victoria University)
- Roger Armstrong (Victoria International, Victoria University)
- Xiaoming Huang (New Zealand Contemporary China Research Centre)

Margaret Boon (Administrative Assistance)

Brenda Watson (Transcription Service)

Gina Garvey (Communications)

Steve Walker (Video editing)

Lachie McLaren (Research Assistance)

Shanming Yang (Research Assistance)

Jay Gopalan (Research Assistance)

Anna Mills (Research Assistance)

Paddy Marra and Chris Watson, Ashcott Consulting (for website development and maintenance, and Newsletter)

Support for presentations of the project findings at venues throughout New Zealand:

Export New Zealand

Canterbury Employers' Chamber of Commerce

Otago Chamber of Commerce

THE PROJECT TEAM



This set of reports is the culmination of a two year research project funded by the Foundation for Research, Science and Technology. The project focuses on two themes that have increasing significance for New Zealand's economic future: services, and China and India. We invite you to consider the findings and recommendations of this study, as presented in the reports and on our website (www.international-services-research.vuw.ac.nz). We hope that the study makes a valuable contribution to the growing body of work on building New Zealand's business engagement in China and India. (Dr Val Lindsay)

Associate Professor Val Lindsay (Project Leader)

Dr Val Lindsay is an Associate Professor in International Business in the School of Marketing and International Business at Victoria University of Wellington. She has a keen interest in teaching and research in the areas of international strategy, exporting, services internationalization, small and medium-sized enterprises, particularly in the context of Asia.

Dr Vivienne Shaw, Topajka Shaw Consulting Limited

After an academic career in Marketing, Viv set up her own company, Topajka Shaw Consulting Limited, in 2004, offering consultancy in a number of key areas: marketing, international business, strategy, research, project management and more recently environmental and conservation management.

Dr Tim Beal

Tim Beal is a former Senior Lecturer and Research Fellow in the School of Marketing and International Business. Tim has considerable experience teaching, researching and advising on subjects ranging from Chinese politics to international marketing at universities in the UK, Japan, China and New Zealand.

Dr Malcolm Cone

Dr Malcolm Cone has had a long and active career as a researcher in Asia, and is currently a Senior Lecturer and Director of the Asia Institute, at the

University of Otago School of Business. Dr Cone has lead a number of NZ government funded research projects in India and China focusing on the positioning NZ producers and exporters in these pivotal markets.

Fergus McLean

Fergus has considerable experience working on the trade development front line, as a NZ Trade Commissioner, and as the Secretary of the Boards of Directors of the Market Development Board, the Trade Development Board, and Trade New Zealand/Tradenz. Since 1998, Fergus has been the Executive Director of three bilateral international business councils, including the India- New Zealand Business Council.

Associate Professor Michel Rod

Michel Rod commenced his academic career at Victoria University in 2001, leaving the role of Manager Intellectual Property Development at the University of Calgary in Canada. His current research interests include service recovery performance, and inter-organisational/multisector collaboration. Michel is now Associate Professor in Marketing at Carleton University, Canada.

Professor Nick Ashill

Nicholas J. Ashill is a former Associate Professor of Marketing at Victoria University of Wellington, New Zealand. In his current role as Professor of Marketing at the American University of Sharjah, he is engaged in a range of international marketing research topics, including services marketing, services recovery and branding.

TABLE OF CONTENTS

Foreword	1
Acknowledgements.....	2
Preface.....	5
The Project Reports	7
Overall Executive Summary: China and India.....	9
Background to the project.....	
Executive Summary - China.....	17
Executive Summary - India.....	20
Closing Remarks	23



PREFACE

The China and India Challenge

China and India are among the two largest, and are the fastest-growing, emerging markets globally. While their interaction with the traditional ‘developed’ markets increases daily, and many of their products, technologies and services compete at a world-class level, they are, nonetheless, emerging markets.

The label, ‘emerging market’, refers to many characteristics and features that are substantially different from those in the traditional markets. These do not necessarily make emerging markets any ‘better’ or ‘worse’, or more or less ‘successful’ than traditional markets – they are just different. In the context of trade, for example, the ‘institutional distance’ of these markets is significantly larger. Effectively, this means that the institutions and institutional structures of the emerging markets are often different, and generally constitute ‘weak’ environments in which firms have to operate. For example, the degree of bureaucracy and corruption is generally high, intellectual property laws are often weak and not enforced, labour laws are cumbersome or inconsistently invoked, and cultural practices are hard to understand. At the institutional level, foreign governments can assist their firms to navigate the unfamiliar and challenging environment, since they have access to resources and key agents at the appropriate levels. Without this kind of facilitation, individual foreign firms often struggle to survive in such markets. For SMEs, a category to which most New Zealand firms belong, the challenges are compounded, for reasons which are self-evident.

While governments and agencies can help to ‘prepare the ground’ in markets such as China and India, firms and their managers must adapt their business practices, or even implement new business models relevant to the market conditions. It is widely agreed that the ‘business fundamentals’ are the same in any market, and this is undoubtedly true. However, the business fundamentals need to be applied in a way that is appropriate to the context. There is a growing body of research which shows that the approaches to business and business models used in traditional markets may not work in an emerging markets. In some cases, it may be sufficient for existing business practice to be simply modified for an emerging market, but, generally, more significant adjustments must be made. These include modifying managerial expectations and timeframes for gaining orders, pricing and volume adjustments, learning complex and often opaque government procedures, adapting human resource strategies to ensure sufficient presence in the market, understanding supply chain and value chain configurations of customers, dealing with unfamiliar cultures, and many others. It is also evident from this study and other research that these adjustments need to be made as a ‘complete package’; selecting just a few small modifications to what is otherwise ‘business as usual’ will generally fail. Furthermore, research indicates that, for a nation to improve its competitiveness and trading outcomes in a foreign country, especially a large emerging market, the responsibility is not just that of firms. While firms ultimately are the major source of foreign income from these markets, government also play an important facilitating role.

It is in this broad context that this study addresses the issues facing New Zealand service and service-intensive firms engaging in business in China and India. This report outlines the factors that are important, if not critical, for firms to succeed, and for a sustainable competitive advantage to be built in China and India. As the findings of the study show, the most important requirement for long-term success is the alignment or facilitation of three ‘pillars of growth’: the supporting platform, providing the broad business context in the market, the operational capabilities of firms, and strategic imperatives, which drive sustainable competitive advantage. The findings suggest that a commitment to optimising these pillars of growth is the responsibility of government, firms and relevant industry bodies, working in a coordinated, multi-level manner. There are many examples internationally of the emergence of national competitive advantage in selected industries arising from such an integrated effort – sometimes referred to as a ‘triple-helix’ approach. In some cases, this includes academic institutions as sources of R&D, innovation and training. While this specific approach may not necessarily be directly transferrable to the New Zealand context, the underlying principles of a focused, strategic approach, which involves various economic players coordinated across multiple levels, has promising application for building a sustainable competitive advantage for New Zealand service firms in China and India.



THE PROJECT REPORTS

The findings from the project, “Service Success in Asia: Building a Sustainable Competitive Advantage for New Zealand Service Firms in Asia: Spotlight on China and India” are presented as three reports: Volume One (Full Report: China and India), and Volume Two (Detailed Reports -Part 1(China) and Part 2 (India)).

Volume One

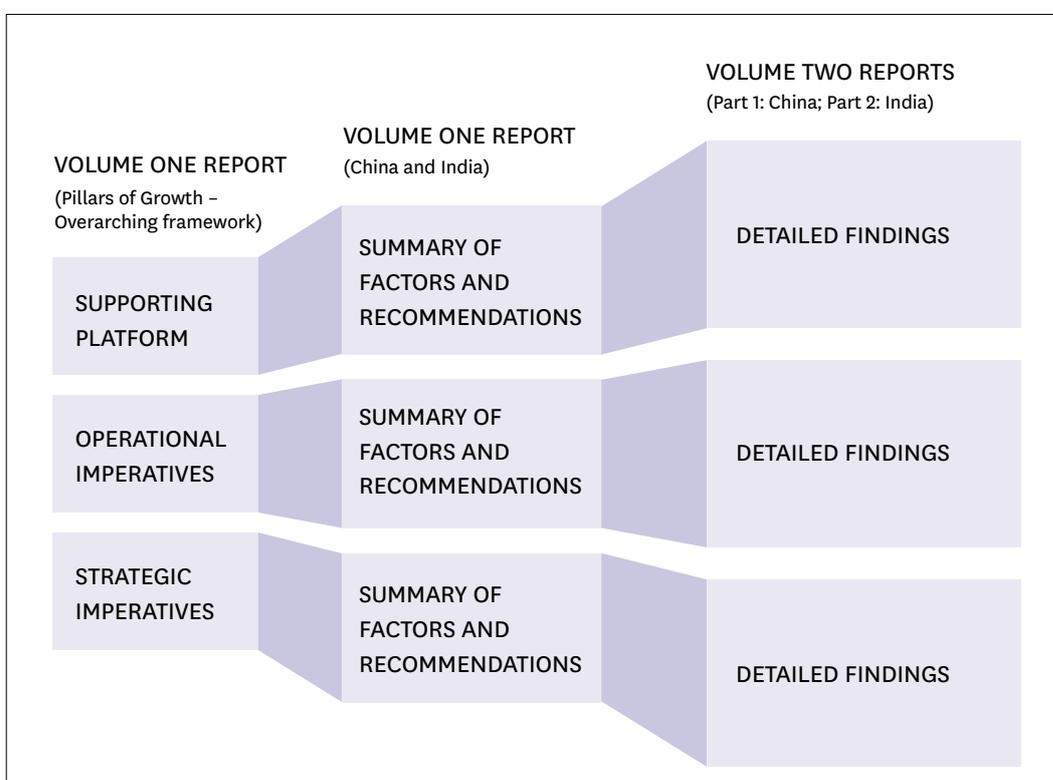
Volume One reports on the findings of the study with respect to China and India. It presents the findings relating to both markets, along with recommendations and a comparison between China and India.

Volume Two

Volume Two is presented in two Parts, each providing supporting information for Volume One. *Part 1* is a detailed report of the findings for China; *Part 2* is a detailed report of the findings for India. These reports provide commentaries and supporting quotes from managers and other participants interviewed during the study, which address the factors summarised in Volume One.

The reports are structured according to the three ‘pillars of growth’ described within a broader framework for building a sustainable competitive advantage for New Zealand service firms in China and India (see p.1). The broad structure of the reports and their links is illustrated in Figure 1 below.

FIGURE 1: BROAD STRUCTURE OF REPORTS



Volume One is intended to be read as the main report of the project, which includes the findings from both the China and India components of the study. The Volume Two reports are each intended as a reference source, containing supporting material which relates directly to the structure and content of Volume One.

Education and Tourism

The study includes research on companies from a range of service and service-intensive industries, including education and tourism. Education and Tourism are reported in separate sections of the reports for the following reasons. While sharing the same broad influencing factors as most industries in the study, education and tourism have a number of features that are more specific to their industries. The primary difference is the inbound nature of their services, whereby the service is largely (although not exclusively) delivered in New Zealand, rather than in the foreign market. These industries are also subject to a number of influences from factors that tend to be less important for other industries, such as immigration regulations, international travel, and specific channel networks. Because education and tourism services are largely delivered domestically, both industries tend to have large multiplier effects into the New Zealand economy, and, therefore, impact a wide range of business activity in the country. The two industries are also strongly interrelated, with tourism being an important component of the education experience for overseas students and their families, and, conversely, tourism acting as a way of promoting New Zealand as an education destination. Both education and tourism also interlink closely with other industries, such as film and sport.

Notes on terminology

During the interviews that took place in the study, Chinese participants frequently used the terms ‘*collaboration*’ or ‘*cooperation*’ in their discussions about working with New Zealand firms in the China market. Used in this context, these terms simply refer to the concept of working together to achieve a better outcome for both parties. Participants in India use the term ‘*partnership*’ in a similar way. In neither case are participants necessarily referring to formal business arrangements, although the concepts can encompass these. In New Zealand, these terms are often interpreted as representing relatively formal business arrangements, such as a contractual collaboration between a number of firms, or a business partnership that may be grounded in a legal agreement. It is important for managers engaging in business in China and India to appreciate that terms such as ‘*collaboration*’, ‘*cooperation*’ and ‘*partnership*’ reflect particular meanings in China and India – and these may be different to how they are understood in New Zealand.

Throughout the reports, the term, ‘*Manager*’ is used to represent New Zealand managers who participated in the study. The term, ‘*Participant*’ refers to managers and other business and government representatives based in China and India who participated in the study.

The Services Dimension

Many of the factors identified in the study are not exclusive to services; some, however, are more important in the context of services, or service-intensive firms, compared with basic manufacturing. For example, respondents believe that face-to-face interaction in the market is particularly important for services. This is because services usually involve the transfer of complex knowledge that can only be conveyed in person. The report also notes other factors that are specific to services, or strongly service-oriented.

OVERALL EXECUTIVE SUMMARY: CHINA AND INDIA

This report provides a summary of the findings of a study into the building of a sustainable competitive advantage for New Zealand service and service-intensive firms in China and India. Detailed findings of the study are also available as separate reports: Volume One, the main report, and Volume Two, Parts 1 (China) and 2 (India).

Over the course of two years, seventy managers in New Zealand were interviewed about their experiences in conducting business in China and/or India. In addition, the customers of many of these New Zealand firms were also interviewed in China and India, along with other respondents in these markets who had a connection to New Zealand firms.

This Summary Report provides an overview of the main findings from these interviews, which address the issue of building a sustainable competitive advantage for New Zealand service firms in China and India.

The study focuses on service firms because services have a high potential for creating value. Moreover, the concept of ‘service’ is extended to include manufacturing firms that have a high services component to their products, as these can be leveraged to provide greater value; the report refers to these as ‘service-intensive’ firms.

China and India are chosen for the study because of their extraordinary growth and the opportunity for New Zealand to substantially increase its trade with these markets.

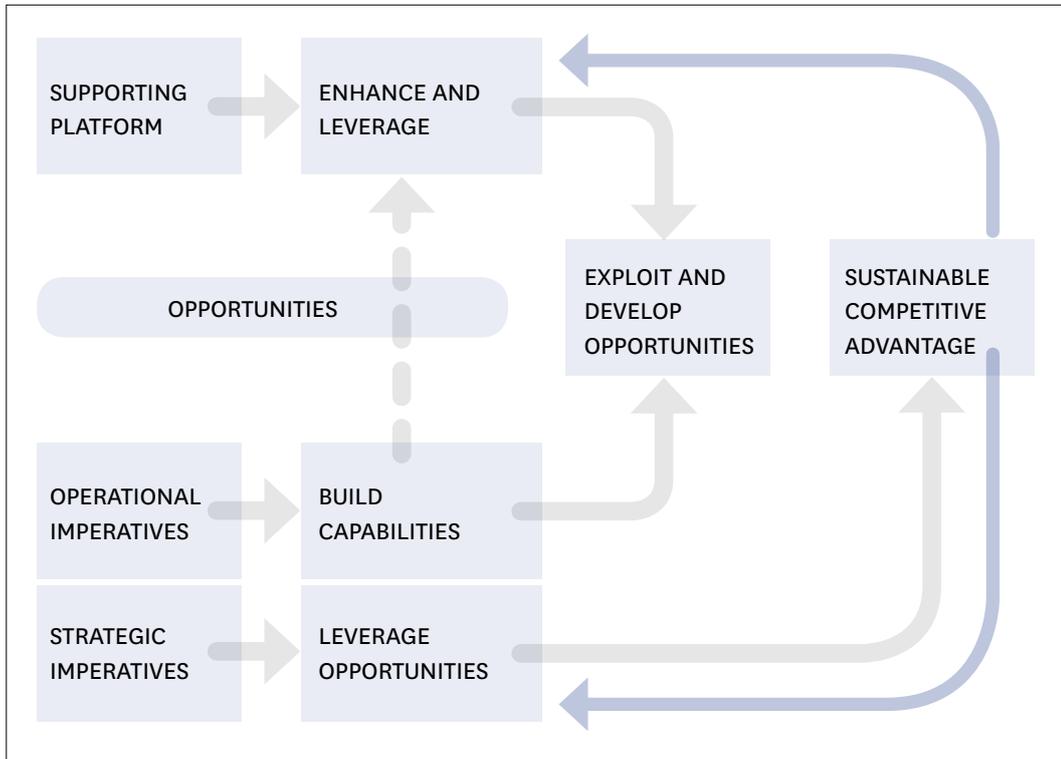
A key outcome of the analysis of the findings is a high-level framework that underpins how New Zealand firms engage successfully in China and India, and how a sustainable competitive advantage for these firms can be built. This is briefly described as follows.

A Framework for Building a Sustainable Competitive Advantage for New Zealand Service Firms in China

Analysis of the findings relating to both China and India identifies a range of factors that influence business and sustainable competitive advantage in the respective markets. While some factors are similar across both, the ways in which they play out in the markets are often markedly different (see Volume 1, Part 5: ‘Comparison Between China and India’). These factors cluster into three main themes, which are referred to as three ‘pillars of growth’: (i) a *supporting platform* for firms engaging with the China or India market; this theme relates to the context in which firms operate; (ii) *operational imperatives* or challenges, which relate to how firms effectively enter and conduct business in China or India, and (iii) *strategic imperatives* or challenges, which are particularly concerned with building a long-term sustainable competitive advantage for New Zealand service and service-intensive firms in China and India.

The three pillars (supporting platform, operational imperatives, and strategic imperatives) are represented in a framework, shown in Figure 2.

FIGURE 2: FRAMEWORK FOR BUILDING A SUSTAINABLE COMPETITIVE ADVANTAGE FOR NZ SERVICE FIRMS IN CHINA



The three pillars in the framework collectively represent the underlying drivers of sustainable business in China and India; they are interrelated and interdependent, but form only the basis on which growth can be achieved. As illustrated in Figure 2, the supporting platform must be leveraged and enhanced to facilitate firms’ engagement and performance in the market. Operational imperatives must be met through the development of relevant capabilities that match the opportunities in the markets. These capabilities and the supporting platform together enable firms to exploit the opportunities, as well as develop new opportunities over time. The strategic imperatives are instrumental to the achievement of a sustainable competitive advantage by facilitating future growth in China and India. Through the strategic imperatives, opportunities can be leveraged for long-term business development. In fast-moving markets like China and India, competitive advantages must be constantly renewed; this is illustrated by the feedback loops in the framework.

The reports of this study (Volume One and Volume Two) are structured using this framework, and, in particular, the three ‘pillars of growth’. The findings illustrate the ways in which Managers in New Zealand and Participants in China and India identify and respond to the factors that constitute these pillars, and signal what is required to achieve sustainable business in these markets.

Overarching Conclusions

The first conclusion from the study relates to the framework presented in Figure 2. The findings indicate that this framework provides the foundation for building a sustainable competitive advantage for New Zealand service firms in both China and India. A range of factors constitute each ‘pillar of growth’ for each market and these form the basis for an implementation programme aimed at improving business engagement and long-term advantage in China and India. These factors are presented in the respective Executive Summaries for China and India in this report and Volume One.

Secondly, the study reveals some overarching conclusions relating to China and India, as follows:

CHINA

Building a sustainable competitive advantage for New Zealand service firms in China represents a significant challenge. The report highlights the need for this challenge to be addressed urgently. If this challenge is not met, New Zealand is unlikely to be able to extend its business engagement with China significantly. It will almost certainly not be able to meet the growth expectations anticipated in the Government’s Economic Growth Strategy.

The findings of this study suggests that resources and efforts should be directed toward implementing the three pillars of the framework proposed: that is, enhancing and leveraging the supporting platform, thus contributing to a strong and favourable business environment in China; meeting the operational imperatives, by building firm and managerial capability; and addressing the strategic imperatives, by focusing on the strategic priorities identified in the study for the China market.

The findings also suggests that building a sustainable competitive advantage requires a multi-level approach – that is, one involving the coordinated activities of Government, government agencies, industries, and firms and their managers.

INDIA

While the findings suggest that India represents substantial opportunities for New Zealand firms, the stage of development of the market is seen to be significantly behind that of China at the present time. Although opinions of New Zealand managers involved in the study differ, the view that India is an easier market in which to engage in business, compared to China, is stronger. Capturing the opportunities in India, however, presents a number of challenges, which the study highlights.

The findings emphasise the need for strategies aimed at increasing New Zealand’s business engagement in India to be developed and implemented immediately, given the long lead times required before business results are evident. Building New Zealand’s future in India requires the development and maintenance of the supporting platform in this market, a focused, sector-based approach to building capability for India among New Zealand firms, and the leveraging of strategic opportunities for long-term sustainable business, as identified in the study.

Achieving a sustainable business future in India will require a coordinated and integrated approach that involves Government, government agencies, industries, and firms and their managers, and a commitment to work together to capture the long-term opportunities.

Thirdly, the study concludes that, while there are known similarities and differences between China and India at the country-level, there are also important differences that impact on the day-to-day operations of managers and their interactions with these markets. It is important that managers are aware of these differences as they engage in business in China and/or India, and not assume that learning can necessarily be transferred from one market to the other.

Recommendations

Recommendations are drawn from the findings relating to China and India, as shown below. A number of recommendations apply to both markets at a broad level, while others are specific to either China or India, as indicated in the headings.

Six sets of recommendations arise from the study. The first set of recommendations relate to the supporting platform and ensuring that a positive business context is developed and maintained in China and India. The second set of recommendations relates to the operational imperatives and the building of capabilities at the firm level. The third set of recommendations addresses the strategic imperatives identified, noting that a number of these will also contribute to the enhancement of the supporting platform discussed in the previous sections. The fourth set of recommendations addresses the need for a multi-level approach to implement the other recommendations – this approach is targeted at building a sustainable advantage for New Zealand service firms in China and India. The fifth set of recommendations relates to the application of the findings to New Zealand firms in general, rather than specifically to service and service-intensive firms. Finally, the sixth set of recommendations concern the education and tourism industries, drawing on the findings presented separately in the reports.

RECOMMENDATION SET 1: ADDRESSING THE SUPPORTING PLATFORM

Recommendation 1a: China

Government ensure that sufficient resources are committed in both China and New Zealand to increase the number of firms engaging in business in China, and support firms already doing business in China to increase their performance in the market.

Recommendation 1a: India

Government ensure that sufficient resources are committed in both India and New Zealand to increase the number of firms engaging in business in India, and support firms already doing business in India to increase their performance in the market.

Recommendation 1b: China

Senior New Zealand Government officials and Ministers visit China more frequently and engage with key people in China, including Chinese government officials and business and industry leaders, to help promote New Zealand's commercial visibility in China.

Recommendation 1b: India

Senior New Zealand Government officials and Ministers visit India more frequently and engage with key people in India, including Indian government officials and business and industry leaders, to help promote New Zealand's commercial visibility in India.

Recommendation 1c: China

Government and firms leverage the advantages offered by the FTA between New Zealand and China more effectively, particularly with respect to increasing business opportunities; and ensure that this is addressed with some urgency.

RECOMMENDATION SET 2: ADDRESSING THE OPERATIONAL IMPERATIVES

Recommendation 2a: China and India

New Zealand firms and managers improve their capabilities for engaging in business in China and India. Training opportunities be made available to build capability for firms to enter, or improve their business in, China and India.

Recommendation 2b: China and India

New Zealand managers commit sufficient resources to support a physical presence in China or India, either permanently, through the establishment of a representative office, joint venture or wholly-owned subsidiary, or by Managers visiting frequently for adequate periods of time.

Recommendation 2c: China and India

New Zealand managers invest in building long-term relationships in China and India, and adopt a collaborative, or partnership-based approach to business for these markets.

Recommendation 2d: China and India

Firms identify the value-adding service components of their products or services, and identify opportunities for leveraging these into the China or India market.

RECOMMENDATION SET 3: ADDRESSING THE STRATEGIC IMPERATIVES

Recommendation 3a: China and India

Government agencies and firms work together to achieve the strategic imperatives identified in the study for conducting business in China and India, with priority given to selected sectors and industries.

Recommendation 3b: China and India

Industry leaders and government agencies build commercial visibility in China and India through promotion and high-level Ministerial visits to the markets; specifically build visibility for selected sectors and industries where New Zealand has strength - these will likely differ for China and India.

Recommendation 3c: China and India

Government, government agencies, industry bodies and firms establish sector priorities for New Zealand business engagement in China and in India, and develop strategies for building strength in these markets for the sectors chosen.

Recommendation 3d: China

Firms pursue opportunities in Tier 2 and Tier 3 provinces in China, focusing on the value that they and other New Zealand firms can add to these provinces, particularly in relation to their economic development objectives.

Recommendation 3d: India

Firms pursue opportunities in particular states in India, focusing on specific market segments available.

Recommendation 3e: China

New Zealand government agencies and industry gain more knowledge about particular areas of priority for China, in terms of sector/industry development and regional economic development; and utilise this knowledge to inform strategic decisions about the kinds of business engagement that New Zealand can offer.

Recommendation 3f: China

New Zealand government agencies, and industry and business leaders work to heighten the awareness and sense of urgency in the New Zealand business community to respond to the window of opportunity in China. Strategic action be taken to define and implement a growth path for New Zealand business in China over the next three – five years.

Recommendation 3g: China and India

Managers utilise the New Zealand-based Chinese and Indian Diaspora groups to support their business engagement in China and India respectively. Managers also draw on New Zealand Diaspora located in China and India to seek advice and assistance in engaging in business in these markets.

Recommendation 3h: China and India

New Zealand firms consider moving away from a business model based solely on exporting to incorporate higher investment modes of operation in China and India; these include representative offices, formal partnerships, joint ventures and wholly-owned foreign enterprises.

Recommendation 3i: China

New Zealand firms target high value niche areas within the upstream activities of China's industry supply chains. Managers commit to long-term involvement in these activities, with a view to becoming a trusted business collaborator.

Recommendation 3j: India

New Zealand firms target Indian supply chains where they can contribute innovative solutions and services. Managers commit to long-term involvement in these activities, with a view to becoming a trusted business partner.

Recommendation 3k: China and India

Firms build collaborative networks within New Zealand for developing business in China and in India; this be facilitated by New Zealand government agencies working both in New Zealand and China/India.

RECOMMENDATION SET 4: A MULTI-LEVEL APPROACH

Recommendation 4a: China and India

New Zealand Government give urgent consideration to structuring a multi-level approach to building a sustainable competitive advantage for New Zealand service firms in China and India that includes government agencies, industries and industry bodies, and firms in New Zealand.

Recommendation 4b: China and India

Multi-level organisations collectively implement the framework for building a sustainable competitive advantage for New Zealand service firms in China and India by addressing the three pillars of growth contained in the framework for each market.

RECOMMENDATION SET 5: APPLICATION OF THE FINDINGS TO NEW ZEALAND FIRMS IN GENERAL

Recommendation 5a: China and India

Government agencies and firms extend the definition and understanding of service industries to include all industries and firms that provide services either entirely, or embodied in their technology or product offering; that is, the concept of 'weightless' exports be adopted.

Recommendation 5b: China and India

Government agencies and firms consider application of the findings to all industries, as well as those specifically involved in services or service-intensive products.



RECOMMENDATION SET 6: EDUCATION AND TOURISM**Recommendation 6a: China and India; Education**

New Zealand education institutions consider higher investment modes in China and India, such as joint ventures and formal partnerships with education institutions in these markets.

Recommendation 6b: China and India; Education and Tourism

Government review policies on New Zealand Immigration, with respect to student visa applications and tourist visa applications for independent tourists from China and India, with a view to addressing concerns about the perceived intrusiveness of the information required.

Recommendation 6c: China and India; Education and Tourism

New Zealand Immigration in China and India review its procedures in order to improve the application processing time and approval rate for student and tourist visas.

Recommendation 6d: China and India; Education

New Zealand education institutions explore further collaboration opportunities for the China and India markets, including twinning programmes, staff exchanges, and collaborative research programmes.

Recommendation 6e: China and India; Education

New Zealand education institutions improve the approval times for student applications, particularly postgraduate applications, with respect to both markets. Consideration be given to facilitating on-the-spot approvals in China and India.

Recommendation 6f: China and India; Education

New Zealand education institutions and New Zealand government agencies increase the level of promotion in China and in India for New Zealand as a preferred student destination.

Recommendation 6g: China and India; Tourism

The New Zealand tourism industry and New Zealand government increase the level of promotion in China and in India for New Zealand as a preferred tourism destination.

Recommendation 6h: China and India; Education

New Zealand tertiary institutions consider ways to address the demand for a one-year Masters programme from Chinese and Indian graduates.

Recommendation 6i: India; Tourism

Air New Zealand and other relevant parties urgently address the issue of limited seat capacity on indirect flights and lack of direct flights between India and New Zealand.

Recommendation 6j: China and India; Tourism

New Zealand tourism industry direct resources towards developing the incentive tourism market in both China and India.

EXECUTIVE SUMMARY - CHINA

“Something’s going to happen for New Zealand with respect to China, so the sooner the penny drops, the better we’re equipped to respond to it. It’s happening now, but I just believe the pace is such that we’re not reacting quickly enough and we’ve got an amazing advantage right now, a competitive advantage, not just in business, but politically.” (New Zealand Participant based in China)

The overarching framework presented earlier in this report (p.11) provides the context and structure for reporting the results of the China component of the study. The framework comprises three themes, or ‘pillars for growth’, which are: (i) a supporting platform, representing the business context in China, (ii) operational imperatives, which reflect the factors necessary for successfully entering and conducting business in China, and (iii) strategic imperatives, which are key factors concerned with building a sustainable competitive advantage for New Zealand service and service-intensive firms in China.

A number of factors relating to each of the three ‘pillars’ are identified in the study. They are summarized in the following sections.

Supporting Platform (Business Context)

Seven factors are shown to collectively contribute to the supporting platform for New Zealand service firms engaging in China. These factors are:

- | | |
|---|--|
| <ul style="list-style-type: none"> • China’s strong growth and development • Positive perceptions of New Zealand and New Zealanders in China • Strong and effective New Zealand Government in China • China: New Zealand Free-Trade Agreement | <ul style="list-style-type: none"> • Well developed infrastructure • Opportunities in China relevant to New Zealand’s resources and skills • Experienced New Zealand managers and entrepreneurs operating successfully in China |
|---|--|

According to the findings, the supporting platform resulting from these factors already provides a favourable business context for New Zealand firms in China. However, the findings also suggest that it can be enhanced and leveraged to facilitate more firms succeeding in the market.

Operational Imperatives

Managers in New Zealand and Participants in China identify fifteen factors, or operational imperatives, that directly affect firms’ operations with respect to their business with China, whether this is through exporting or other forms of business engagement. They report these operational imperatives as being important firm-level requirements for successfully conducting business in China. The factors constituting the operational imperatives are:

<ul style="list-style-type: none"> • Having a positive awareness and perception of China • Having management commitment and providing firm resources • Understanding cultural differences and managing language barriers • Having patience and perseverance • Conducting market research and doing the homework • Having a competitive advantage • Communicating the value proposition - adding value through services 	<ul style="list-style-type: none"> • Managing intellectual property • Dealing with scale and volume • Finding a local partner • Building and maintaining relationships • Making the right market entry mode decision • Managing negotiations and pricing • Having a presence in the market • Dealing with corruption
---	--

The findings suggest that most firms already operating in China are largely meeting these operational imperatives. However, they are thought to present substantial challenges for New Zealand firms planning to enter China for the first time, as well as for many firms wanting to improve their performance in the market. Opportunities for firms to meet these operational imperatives can be offered by capability-building programmes tailored for the China market.

Strategic Imperatives

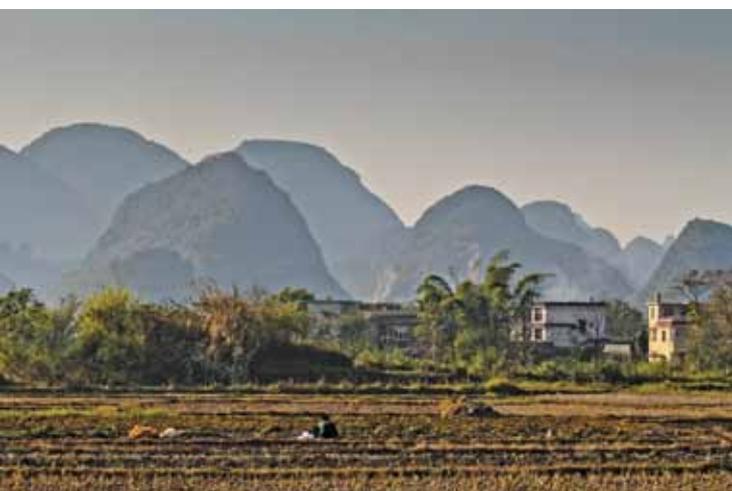
Eleven key factors are identified as representing the strategic imperatives. These reflect the strategic challenges for New Zealand and New Zealand service firms in building a sustainable future in China. They also provide a blueprint for government agencies and industries to establish a strategic agenda and priorities to achieve this goal. The factors representing the strategic imperatives are:

<ul style="list-style-type: none"> • Building New Zealand's commercial visibility and branding in China • Leveraging Provincial opportunities • Responding to China's development needs • Making a strategic commitment in China • Moving beyond the exporting – investment in the market 	<ul style="list-style-type: none"> • Integration into supply chains and adding value • Responding to the window of opportunity • Focusing on sector opportunities • Utilising Diaspora in China and New Zealand • Collaborating • Working with Government and bureaucracy in China
--	--

According to the findings of the study, the extent to which these strategic imperatives are currently being met is limited. In order to leverage current and future opportunities in China, resources and expertise are required to meet the strategic imperatives and facilitate the future engagement of New Zealand firms in the market.

There are already notable New Zealand business successes in China, with firms meeting the operational imperatives within a relatively strong supporting platform. However, Managers and Participants believe that these two pillars are not sufficient for New Zealand or New Zealand firms to gain a sustainable competitive advantage in China. First, they believe that many more New Zealand firms need to engage in business in China, if trade is to increase. Second, they suggest that if the third pillar, the strategic imperatives, is not also implemented, New Zealand's future growth in China is in doubt. Third, in the view of Participants in particular, if a sustainable competitive advantage is to be built in China, New Zealand and New Zealand firms must execute a sea change in their approach to the market. Not only do they suggest a need for substantial strengthening of effort and focus for the long-term, but also indicate that there is a limited window of opportunity in which changes can be successfully implemented.

The recommendations presented earlier and in Volume One (Part 4) of this report provide a blueprint for addressing the challenges identified and implementing necessary initiatives and changes in order for a sustainable business future for New Zealand service firms in China to be achieved.



EXECUTIVE SUMMARY - INDIA

“I don’t think we’ve got our heads around the scope of what’s happening in India and I’m sure not a lot of [New Zealand managers] have. I think there’s a general feeling that, hey something is happening out there, but do we really know what that is?” (New Zealand Manager)

The results for the India component of this study are organised in the context of the overarching framework presented earlier in this report (p.13). The framework comprises three main themes, or ‘pillars of growth’, which are: (i) a supporting platform, representing the business context in India, (ii) operational imperatives, which reflect the factors necessary for successfully entering and conducting business in India, and (iii) strategic imperatives, which are factors concerned with building a sustainable competitive advantage for New Zealand service and service-intensive firms in India.

The key factors relating to each of the three pillars of growth for India are as follows:

Supporting Platform (Business Context)

Eight factors are shown to collectively contribute to the supporting platform for New Zealand service firms engaging in India. These factors are:

<ul style="list-style-type: none"> • India’s strong growth and development • A common British heritage • Positive perceptions of New Zealand and New Zealanders in India • Proposed India: New Zealand Free-Trade Agreement • Good diplomatic and political relations between New Zealand and India 	<ul style="list-style-type: none"> • Opportunities in India relevant to New Zealand’s resources and skills • <i>Poor infrastructure</i> • <i>Limited availability of experienced New Zealand managers and entrepreneurs in India</i>
--	---

The findings indicate that most of the factors contributing to the supporting platform provide a reasonably favourable business context for New Zealand service firms in India. However, two factors (shown in italics in the table) are perceived by Managers and Participants as obstacles or weaknesses of the supporting platform in this market. These are poor infrastructure and a lack, or limited awareness, of experienced New Zealand managers and entrepreneurs located and operating successfully in India.

Compared to China, the supporting platform for New Zealand firms engaging in business in India appears to be less favourable. However, most Managers believe that India will develop a similarly favourable business environment to China within the next 5-10 years.

Operational Imperatives

Nineteen factors are identified that directly affect the operation of New Zealand firms in their business with India. Some are seen as being more important than others, depending on the modes of business engagement – for example, exporting vs joint venture. The operational imperatives reflect important firm-level requirements for successfully conducting business in India. The factors constituting the operational imperatives are:

- | | |
|---|---|
| <ul style="list-style-type: none"> • Having a positive awareness and perceptions of India • Making a management commitment and providing firm resources • Understanding cultural (and language) differences • Having patience and perseverance • Conducting market research and doing the homework • Having a competitive advantage • Communicating the value proposition - adding value through services • Managing intellectual property • Dealing with scale and volume | <ul style="list-style-type: none"> • Using appropriate communication channels • Having a local partner • Working with agents and distributors • Building and maintaining relationships • Making the right market entry mode decision • Having an appropriate pricing strategy • Managing negotiations • Adapting to the Indian Market • Having a presence in the market • Managing corruption |
|---|---|

Many New Zealand firms in the study appear to be successfully meeting these operational imperatives in the Indian market. However, for many firms planning to enter India for the first time, or for those wanting to improve their performance in India, these operational factors are thought to present substantial challenges. Opportunities for capability-building of firms and managers through India-focused training programmes can assist firms in meeting these operational imperatives.

Strategic Imperatives

Nine factors are identified as representing the strategic imperatives for building a sustainable competitive advantage for New Zealand service firms in India. They provide the basis for establishing a strategic agenda and priorities for long-term business engagement with India. The factors representing the strategic imperatives are:

- | | |
|--|---|
| <ul style="list-style-type: none"> • Building New Zealand's commercial visibility and branding in India • Leveraging into global markets • Making a strategic commitment in India • Moving beyond exporting - investment in the market | <ul style="list-style-type: none"> • Using a 'partnership' approach - working together in the supply chain • Focusing on sector opportunities • Utilising Diaspora in India and New Zealand • Collaborating • Working with Government and bureaucracy in India |
|--|---|

The findings of the study suggest that New Zealand firms largely lack awareness or understanding of the opportunities in India beyond a relatively superficial level. The findings further indicate that the strategic imperatives are currently being met to only a limited extent. In order to leverage current and future opportunities in India, resources and expertise are required to meet the strategic imperatives and leverage firm capabilities and opportunities in the market.

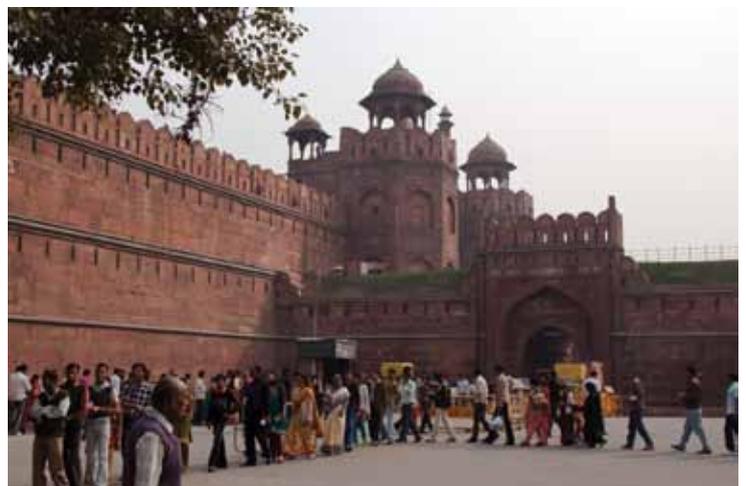
There are some notable New Zealand business successes in India, but these are mostly dispersed across a range of industries which lack critical mass in the market. New Zealand expertise is, therefore, inadequately reflected in India. While the supporting platform is favourable to some extent, weaknesses are also perceived. Many firms are meeting the operational imperatives, but these pose substantial hurdles for firms not already involved in business in India. Along with the supporting platform and operational imperatives, the strategic imperatives provide the basis for New Zealand's future growth in India, but many of these are not being met effectively.

The recommendations presented earlier and in Volume One (Part 4) of this report provide a blueprint for addressing the challenges identified, and implementing necessary initiatives and changes in order for a sustainable business future for New Zealand service firms in India to be achieved.



CLOSING REMARKS

This report presents the findings of a study into how a sustainable competitive advantage can be built for New Zealand service firms in Asia, with a spotlight on China and India. The findings have led to a number of conclusions and recommendations that can, if implemented, contribute to this broad goal. There is no doubt that New Zealand service and service-intensive firms have substantial opportunity to engage in business in these markets and improve New Zealand's overall trading performance. This report highlights some of these opportunities, and presents the key challenges involved in exploiting and leveraging them. Addressing these challenges requires the collective and coordinated efforts of business and government agencies. The project team hopes that this report, as well as the detailed findings presented in Volume Two, will provide valuable inputs into the building of New Zealand's sustainable competitive advantage for service and service-intensive firms in China and India.



APPENDIX

New Zealand Companies Participating in the Study

A J Hackett New Zealand
 AbacusBio Ltd
 Air New Zealand Gas Turbines
 Airways Corporation
 AIS St Helens
 ANZ
 Auckland University of Technology
 Aviation New Zealand
 B.W. Murdoch Ltd
 Beca International Holdings Ltd
 Burnard Logistics
 Cargo Co-ordinators Shipping Agencies Ltd
 Castalia
 Cereus Holdings Ltd
 Christchurch Engine Centre
 Christchurch Polytechnic Institute of
 Technology (CPIT)
 Christmas Gouwland Basrur Consulting Ltd
 CMC Technology Export Centre (CMCTEC)
 Commtest Instruments Ltd
 eBUS
 Education Christchurch
 Education New Zealand
 Education Southland
 Fonterra
 Framacad Solutions Ltd
 Franchise Association of New Zealand
 gardyneHOLT
 Glidepath
 Jade Software Corporation
 Kensington Swan
 Les Mills International Ltd
 Lincoln University
 Mainfreight
 Massive Software
 McDouall Stuart Securities Ltd
 Natural History New Zealand Ltd (NHNZ)
 New Zealand Export Credit Office
 NZFIS
 Otago Polytechnic

Pacific International Hotel Management
 School (PIHMS)
 Pan Pacific Travel
 Plant and Food Research Ltd
 ProAnd Ltd
 Professional Director
 Pumpkin Patch
 Queenstown Resort College
 Real Journeys
 Redesign Interior Architecture Ltd
 Scott Technology
 SMX
 Story Inc
 Tasman Orient Line Ltd
 Tourism New Zealand
 Tru-Test Corporation Ltd
 University of Canterbury
 Victoria University of Wellington
 Vista Entertainment Solutions Ltd
 Waikato Institute of Technology
 Walker Architects Ltd
 Wellington Institute of Technology (Weltec)

New Zealand Companies Participating in Preliminary Interviews

Adventure Pacific Ltd
 ANZDEC Ltd
 Baldwins
 Film NZ
 METRA
 Orion Health
 Radiola Aerospace Ltd
 Seaworks Ltd
 SLI Systems Inc
 Southern Travelnet Ltd
 Stevens Lawyers
 Streat Automation
 Tourism Resource Consultants Ltd
 Tricia Reade
 Valadenz
 Woodhams Meikle Zhan Architects (WMZA)
 XERO

