Four paths to export success

The 2014 *Idealog* export guide

Exporting can take many forms – from a boutique business with offshore sales, to a full-blown multinational. In the 2014 Idealog Export Guide we explore four ways Kiwi companies choose to build successful international markets: selling from home – using the internet and a myriad of cunning new technologies to develop an internationally-focussed business without leaving New Zealand; sharing the load through overseas distributors, licensees and other in-market partners; establishing sales and marketing offices offshore; and developing a full-blown regional or international presence. By Lynda Brendish

PHOTOGRAPHY BY GETTY

Going global from home

Rapidly evolving internet technologies and business models, means a host of Kiwi businesses are finding they don't need to leave the long white cloud to access the clear skies of bigger markets.

Kiwi-based web and game developers (like Custard Square, pictured) can work from New Zealand, and most of their customers don't even know they aren't in Silicon Valley. But New Zealand tech companies need to cooperate to grow the overseas market, says Custard Square studio director Chris Bulman

THE INTERNET HAS made our world so much smaller on many levels. A hobbyist in Hamilton can order rare parts direct from suppliers in Shanghai and receive delivery quickly and affordably, while a music lover in Manukau can buy and listen to the latest Beyonce album just minutes after release. And thanks to the internet, Kiwi products can go just as seamlessly in the other direction.

It is probably easier now than at any time before to run a small business with a global reach, from New Zealand. And that's not only true for software developers – although that's probably the easiest sell.

(According to recent figures from the New Zealand Game Developers Association, the industry doubled its exports in 2014 to $80.2 million, largely off the back of digital distribution platforms like App Store and Steam.)

But even for tangible goods exporters, there is a range of internet-based export options that make accessing world markets possible from the comfort of a Kiwi base.

Hardy brands may bank on their ability to sell from their own e-commerce platforms, but there are other options for brands that lack name recognition on their own – including well-established online marketplaces like Amazon.

It's a strategy more and more Kiwi businesses are experimenting with, as they look to take advantage of a large existing customer base, and the online commerce and fulfillment capabilities of a player like Amazon, says Mark Hargreaves, a partner at intellectual property law firm AJ Park.

"Rather than developing separate channels to overseas markets, Amazon can provide a huge market opportunity very quickly for New Zealand businesses if their product is good."

Of course, the gear still needs to be shipped to Amazon's warehouses, but once it is, picking and packing is taken care of. The downside, says Hargreaves, are the fees and the hassle of managing inventory remotely – though there are businesses popping up that specialise in handling the logistics of selling products through these channels.

One of these is Auckland-based ExportX. Managing director Paul Grey says the company consolidates shipments among its clients so exporters can avoid sky-high freight costs for small quantities. It also offers offshore warehousing options so companies can cut the time and cost of delivery for their customers.

Managing risk

Trading on the global stage isn't easy, even if you aren't setting up expensive networks overseas, says Gary Cross, head of global trade and receivables finance at HSBC.

The problems aren't just limited to the additional time and cost of getting products into overseas markets, he says.

"Exporters are exposed to numerous risks," says Cross. "These include the inability or unwillingness of the buyer to pay; political or economic pressures; possible credit default by the buyer's bank; and transport risks."

Foreign exchange movements can also result in exporters receiving fewer New Zealand dollars than anticipated.

Cross says banks play three key roles in helping exporters manage the risks of international trade.

They can provide working capital funding solutions centred around the exporter's trade cycle, and can offer products and solutions that mitigate these risks, in line with the exporter's appetite for risk.

They can also act as an agent for receiving and clearing foreign currency in settlement of an export sale.

International banks can also provide added value through potentially linking a transaction at both ends of the supply chain, says Cross.

"The result may be reduced transaction costs, and identification of further business opportunities."

Visiting new markets to evaluate the opportunities is helpful, as is seeking independent advice before entering a trading relationship with an unknown buyer, he says.

A positive outlook

The Hongkong and Shanghai Banking Corporation (HSBC), one of the world's largest banking and financial services organisations, recently issued its Global Trade Forecast report. Here are some of the highlights.

GLOBAL TRADE IS on the road to recovery. Over the next two years, merchandise trade growth is set to regain its pre-financial crisis vigour, accelerating from 2.5 per cent in 2013 to 8 per cent in 2016. This upward swing is driven by the strengthening recovery in the US and Europe and the long-term expansion of emerging economies, particularly in Asia and Latin America.

A survey of 5,800 importers and exporters from 25 countries indicates a new optimism after years of desultory growth, but it is tempered by caution. While it may not come as quickly as some would like, the recovery of Western markets looks strong. Emerging markets, however,are facing a number of challenges and remain more exposed to geopolitical risks such as the uncertainty in Eastern Europe and the Middle East.

The long-term prospects remain bright, and HSBC's current Trade Forecast predicts that global merchandise trade will almost triple by 2030, driven largely by emerging markets.

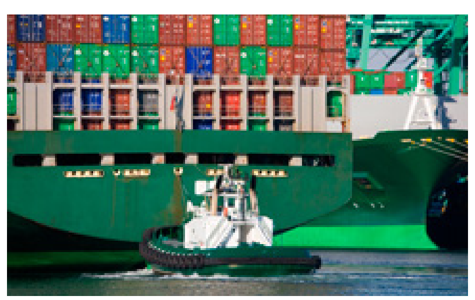
Despite the short-term challenges emerging markets face, they have the vitality and ability to rebound from setbacks, and this is driving long-term trade growth and changing the architecture of global trade itself.

According to data from the United Nations Conference on Trade and Development (UNCAD), year-on-year merchandise trade has grown on average less than 1 per cent (0.98%) a quarter since the beginning of 2008 in developed economies and more than 4 per cent (4.03%) in developing economies.

This difference represents the growth in trade between developing nations, which is being driven by two self-reinforcing trends: the increasing atomisation of global supply chains and the rise of the emerging market consumer.

“New Zealand is in a great position to leverage the growth in global merchandise trade that's forecast to occur by 2030; particularly as five of the six fastest growth markets are from Emerging Asia.”

Gary Cross, Head of Global Trade and Receivables Finance at HSBC New Zealand.



Improvements in logistics management, transport and financial services have contributed to more sophisticated supply chains. Today, intermediate goods account for two-thirds of China's imports from the 10 members of the Association of South East Asian Nations and more than half of ASEAN's imports come from China.

In the past, these goods would have been bought together to create a product to be shipped to markets in Europe and North America – today, that's only part of the story. Manufacturing has brought prosperity to emerging markets, turning their citizens into consumers in their own right.

We estimate that some 2.6 billion people will join the middle class by 2050, when emerging markets will account for two-thirds of global consumption, up from a third today.

The impact of this seismic shift is already reflected in global trade patterns. For much of the last four decades, trade has been predominantly one way: customers in developed nations buying products made in developing nations. Today, the world is connected by a web of so-called South-South links: a steel mill in India feeds a parts manufacturer in Vietnam, which supplies an assembly line in Mexico, which sells the finished product to a Brazilian customer.

The implications for the future are intriguing. As manufacturers in emerging markets move up the value chain – pushed by higher wages and pulled by greater consumer spending power –their cost advantages are becoming less important. Some companies are already 're-shoring' production to developed economies, and there's no reason why more manufacturers in developed economies won't eventually play a full and lucrative role in global supply chains.

However, the opportunities presented by the simultaneous diversification of both supply chains and markets bring significant challenges. New and unknown suppliers and customers, greater complexity, and finer margins must all be managed. But with the right partners and planning, none of these issues is insurmountable.

The trend towards South-South trade is very clear in countries like India. Between 2005 and 2011, trade between India and Africa grew on average 32 per cent a year. Global management consulting firm McKinsey & Company estimates that by 2025, trade between these two regions could reach $160 billion.

The diversification of trade helps strengthen the global economy, meaning the collapse of any single element is unlikely to drag down the whole significantly. However, it relies on the smooth running of a complex meshing of logistics, transport and communications, all of which are vulnerable to natural disaster, the vagaries of geopolitics and misunderstanding.

Trade growth is always vulnerable, but the recovery of global commerce over the next 15 years will bring prosperity to an unprecedented number of people and contribute to a more stable world.

As the lifeblood of the global economy, trade spreads wealth from rich consumers to poorer producers, spurring growth through innovation and improvements in productivity, and creating new opportunities for future generations.

Find the full Global Trade Forecast report on the HSBC Global Connections website.

IN BRIEF

HSBC was founded in 1865 to finance trade between Asia and the West. Today, it is the world's leading international trade bank, facilitating over US$500 billion of trade in 2013. With offices in 74 countries and territories, HSBC has access to 87% of world trade. It can assist New Zealand exporters with innovative working capital solutions centred around their trade cycle, and products to assist them with managing the various risks associated with trading internationally.

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Managing risk

When trading on the global stage, New Zealand companies encounter a wide range of issues, says Gary Cross, Head of Global Trade and Receivables Finance at HSBC. In particular, geographic issues can add time and cost to getting product to market.

"Exporters are exposed to numerous risks," says Cross. "These include the inability or unwillingness of the buyer to pay; political or economic events potentially preventing the buyer from paying; possible credit default by the buyer's bank; and transport risks."

He says foreign exchange movements can also result in exporters receiving fewer New Zealand dollars than anticipated.

HSBC plays three key roles in helping exporters manage the risks of international trade. It provides working capital funding solutions centred around the exporter's trade cycle; and it offers numerous products and solutions that mitigate these risks, in line with the exporter's appetite for risk.The bank also acts as an agent for receiving and clearing foreign currency in settlement of an export sale.

"HSBC customers can also benefit from our global footprint through potentially linking a transaction at both ends of the supply chain," says Cross. "The result may be reduced transaction costs, and identification of further business opportunities for our clients."

Before expanding offshore, Cross suggests seeking independent advice from sources such as NZTE, business associations, legal advisers and banks. "Engaging your advisers early on will help you consider market-appropriate company and tax structures, identify trading risks, understand market peculiarities and protocols, and leverage Free Trade Agreements, where appropriate."

A foot in the door

In any market, finding a good in-market partner is often item number one on the exporting to-do list. But beware: many New Zealand companies have found themselves in hot water from thinking they can simply walk into a market and appoint a partner. Here are some of the pitfalls and how you can avoid them.

"ONE OF THE mistakes exporters talk about trying to later unwind is turning up with the wrong partners in market," says Catherine Beard, executive director at Export New Zealand, a national exporter membership organisation.

"If you get a distributor who says all the right things but then doesn't deliver, have you locked yourself into that agreement and how easy is it to get out of it?"

One pitfall, warns Anton Blijlevens – an intellectual property lawyer at AJ Park – is leaving IP protection to the distributor.

"In China, and many other countries, the 'first to file' rather than the 'first to use' a brand has the rights to own the registered trademark," he says.

For that reason, allowing your Chinese partner to sort out your IP protection can make it very expensive to fire a distributor if and when needed.

"Don't give away your IP as a loss leader just to be able to sign the distribution agreement or to be able to sell the first shipment of products.

"A company's IP can have value well beyond the profits made from that first shipment."

But working with a distributor isn't all downside. The upside comes when you find a partner who acts as a true brand advocate who can help navigate some of the idiosyncrasies of the market and the flow of information.

The right distributor can also harness the value of their pre-existing relationships and the brand value they bring to the table, saving an exporter potentially large amounts of time and resources in developing those networks on their own.

"Growth and success is really in finding a distributor that's passionate about your business," says Andy Doherty, chief executive at Besgrow, a bark and moss company which exports around the world.

Besgrow works with a range of distributors, and says the relationship is often particularly successful when Besgrow is a large part of the distributor's business.

"Ideally [the distributor] is totally focused in your market, and essentially your business is their business."

Even so, plenty of due diligence needs to be done up front before signing on the dotted line.

Jorge Forteza is an economist and NZTE Beachheads advisor in Buenos Aires. His advice for narrowing in on partners in the sometimes-difficult South American environment is appropriate in any region.

"There needs to be an enormous amount of research on their real capabilities. Who they are,

Jorge Forteza

who are the owners, what are their characters, do they have alliances already, what has been the track record?" he says.

Before negotiations start, do plenty of research on your potential partner's capabilities and strategic presence – not forgetting their character and business practices, he says. Best discover the scary bits now, not during talks – or worst of all when they've signed."

At Hamilton-based Canary Foods, a value-added butter products manufacturer and exporter, director James Gray says new distributors are often referred by other contacts, and then evaluated against a set of internal criteria to help determine how well they'll fit.

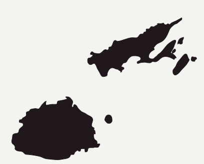
"Many distributors might tick a number of the boxes but we aren't satisfied they are going to stick to what they said they were going to do," he says.

In new markets, Gray says research often starts from a blank piece of paper. "We do a lot of collaborative work with NZTE. They will, on our behalf, research the market and identify potential distribution options and come up with a list of people to consider. We do our homework and that's often followed up by an in-market visit where we go through the evaluation process."

New Zealand's world wide trade web

KEY EXPORT MARKETS

Pacific Islands: An essential part of the NZ export industry, taking over $1 billion of our goods and services a year. Recently, however, New Zealand's food exports have come under scrutiny because of a possible link between imported foods and increasing numbers of people with diabetes and other health problems.



China: In just over 30 years, China has evolved into the world's second largest economy. New Zealand is the first (and until now the only) OECD country to establish a free trade agreement with China, with improved access boosting dairy industry revenue by $US3.3 billion to the end of 2013.

France: The EU's second largest economy and the world's sixth largest exporter of goods, France and New Zealand have a strong and steady relationship based on cultural and historical linkages, including shared interests in the Pacific. Concerns include stagnant (0%) GDP growth in Q2 2014.

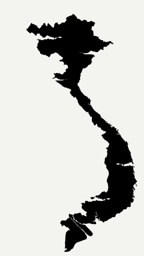
Middle East: Constantly in the news, mostly for all the wrong reasons, the richer, more stable parts of the Middle East nevertheless provide good trading opportunities for New Zealand, often in food. (93% of Egyptian imports are dairy, for example). The UAE is the primary entry point into the Middle East for Kiwis and their exports.

India: Bilateral free trade negotiations are underway with India, New Zealand's most developed trade partner in the South Asian region. The election of Narendra Modi as PM in May on the back of his promise to "make India work" was an optimistic sign but as yet has produced little reform.

Italy: Following its recession, Italy's economy remains weak, however the government is undertaking legislative reform to increase its economy and balance its budget. Italy is New Zealand's fifth largest European exporter with agricultural products including wool, hides and skins dominating.

United States: A key component of the increasingly strong economic relationship between the US and NZ is the scale of the corporate and individual investment between the two countries. The US is a key negotiating force – but a slow mover – in the Trans-Pacific Partnership, initiated in part by New Zealand.

Vietnam: In 2015, New Zealand will celebrate 40 years of diplomatic relations with Vietnam. In 2010, the NZ-Vietnam Action Plan 2010-2013 was signed, giving effect to a partnership across a wide range of sectors. As of mid-2014 the two countries were still working on the 2013-2016 plan.



Russia: Already one of our largest export destinations, New Zealand is expected to benefit from a retaliatory food import ban instigated earlier this year by Russian President Vladimir Putin against countries (not including us) which imposed sanctions on Russia as retaliation for its part in the conflict in Ukraine.

Mexico: In 2012, Mexico officially became a Trans-Pacific Partnership negotiating partner, increasing opportunities for bi-lateral trade and investment. Meanwhile, Mexico's business leaders and investors facing a stagnant economy are looking to a new government and far reaching reform to produce much-anticipated change.

HOT EXPORT OPPORTUNITIES

Pacific Islands: NZ exports continue to soar with an average of 5% growth per year. Fruit and vegetables, steel products, meat, dairy, timber and construction are the largest export opportunities within the Pacific Islands. Exports to the three French Pacific Islands are higher in total value than what is exported to France.

China: NZ's top exporting nation continues to grow in the dairy industry with export prices set to reach $1B. The largest potential for possible growth comes from red meats, its market tends to take lower cuts such as lamb flaps and thawed products for popular pot styled restaurants.

France: The French spend more money on food and beverages than any other nation in Europe. Horticulture exports such as Corn, pears, apples and quinces continue to rise. With the second highest birth rate in Europe, exporting opportunities are increasing for baby and children products.

Middle East: Export opportunities to Egypt continue to soar in the animal offal market along with office, bedroom and kitchen furniture. The United Arab Emirates and Oman dominate in technology opportunities, with growth potential in the computer and telecommunications sectors.

India: The traditionally tea and spirit drinking nation has embraced wine in the last 10 years. New Zealand winemakers mix grapefruit, gooseberry and passionfruit aromas with popular Indian herbs. Kiwi wines have become a popular attraction in the top hotels and restaurants.

Italy: Apparently Italians love the quality and reliability of products from New Zealand. There are increased opportunities for our exporters in hides, precious stones for fashion, and wool, where exports last year reached roughly 100,000 tonnes.

United States: Due to its enormous size and population the United States export potential lies predominantly in its market diversity. Opportunities exist for New Zealand aviation and marine companies in areas such as helicopters, and there's also a strong market in commercial and public safety.

Vietnam: With enormous development and infrastructure needs, encouraged by the Vietnamese government, the country is taking increasing quantities of our sawn timber exports. There are also significant opportunities available for our aviation industry – from aircraft manufacturing through to aviation personnel training.

Russia: As Russia's population of wealthy consumers continues to grow, significant opportunities for New Zealand exporters exist in food and beverage and the clothing industry. Consumer preferences have shifted from low-price, low-end goods to durable, high-quality, high-priced products.

Mexico: The ICT sector in Mexico has continued to grow, with increasing demand for government and corporate solutions . There are opportunities for ICT players in the transport, security, safety, energy and environment services sectors. Kiwi fire extinguishers and spray gun exports are booming.

New Zealand love story

When you're a fast-growing business in an ultra-competitive and established market, keeping track of your cashflow is vital. Xero helps Naveya & Sloane do just that.

By Deirdre Coleman

THE CONNECTION BETWEEN fashion and jewellery is an obvious one. What's not quite as obvious is the leap from designing clothing for Kiwi brand Huffer to starting your own luxury jewellery company.

But that's exactly what Rachel Sloane, creator of Naveya & Sloane, achieved in 2010 with the help of her partner and co-founder, Alex Bunnett.

Their company custom designs jewellery for those wanting something timeless and authentic that's created through a friendly and collaborative approach.

"Part of the reason we've been successful is we've taken a fresh new look at what fine jewellery should be and tried to take it from something that some see as conceited or a bit intimidating to something that's a really enjoyable experience," says Bunnett.

"Our model is quite different to what's traditional for jewellery. We don't have lots of rings in display cabinets; we offer predominantly a bespoke service."

While most of Naveya & Sloane's customers are local, Bunnett says the company has a growing offshore clientele. Many are either expats living abroad or they have a Kiwi partner.

"They want to work with a New Zealand company to create something special. We contact them via email, phone or Skype to understand what they want and work with them to help them design their ring. Once they're happy, we craft it for them and send it over. It's quite straightforward."

The company has been exporting since it began. And while export is still a small part of the business, it's a growing area. Naveya & Sloane's biggest export market is Australia, but it also has customers in the UK, North America and Europe. Its jewellery is even available duty free, so customers can collect their ring when heading away on an overseas holiday.

"From the outset we always had ambitions to go offshore with our product, and after five years of refining our processes, we are now in the early stages of planning our first overseas boutique," says Bunnett.

Naveya & Sloane now has 14 staff working from its showroom and workshop on Auckland's Queen Street. In addition to its international plans, the company will also be expanding and refurbishing in 2015.

While their brand is about beautiful bespoke jewellery, robust business practices are also essential. Sloane is the creative force behind the company, but as managing director, Bunnett takes care of marketing, finances and business strategy.

"We're 100% self funded. We started with nothing. We sold our cars, furniture, even my skateboard, to help fund the business and we continue to invest everything back into it, so it's crucial to manage that well."

Naveya & Sloane has been using Xero accounting software from the outset. Bunnett sought recommendations from others and says Xero was a name that frequently came up.

"Using Xero has been so straightforward," he says. "A critical area where it's helped us is in seamlessly integrating with our other software packages. That flexibility of having Xero bolt onto other task-specific software is really game changing. It's not only saved us a huge amount of administration time but, crucially, it's allowed us to see exactly where we are financially."

PHOTOGRAPHY BY NIC STAVELEY

"We started with nothing. We sold our cars, furniture, even my skateboard, to help fund the business and we continue to invest everything back into it. So it's crucial to manage that well."

Naveya & Sloane uses Xero to manage all invoicing, purchase ordering, job tracking and time sheets. It also lets Xero track its foreign currency payments to suppliers in Australia, where many of its raw materials come from, and works out currency fluctuations.

"We're all about charging our customers as efficiently as possible, and part of that is understanding how long the crafting process takes. With Xero integrated into Workflow Max, our production-management software, we can track costs across every ring we make – that's a very powerful feedback loop. It gives us visibility into our business and lets us see what's happening at an individual job level. When you're dealing with incredibly expensive items, very small differences can have a big cost impact."

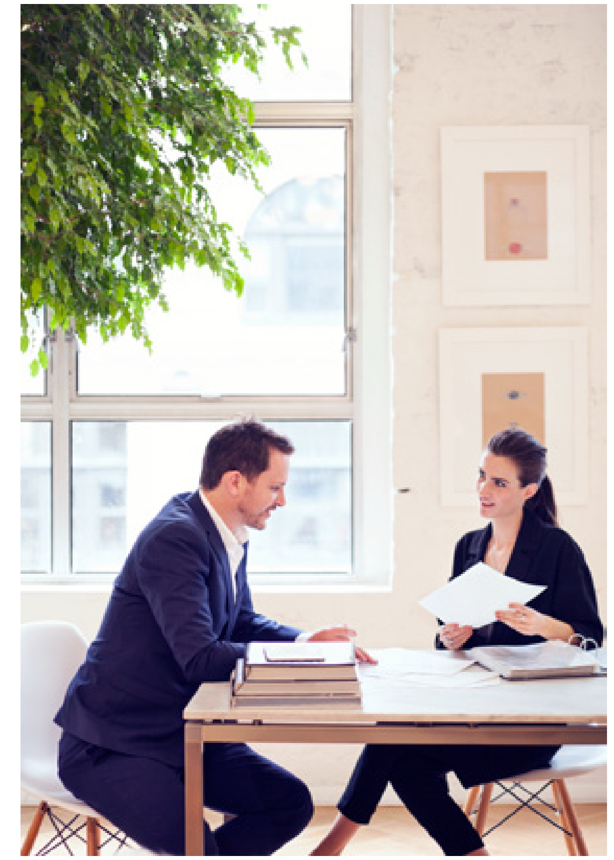
Bunnett says Xero even made his recent holiday more relaxing, knowing he could log into the cloud-based accounting platform any time, anywhere, to keep on top of the books.

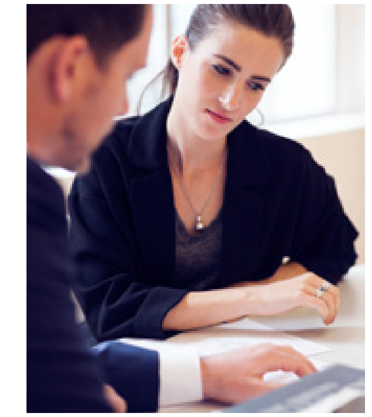
"I don't know how anyone survived pre-Xero. Without it there would be so much time wasted on just simple book keeping. Also when you're growing organically you don't have this giant pool of cash that you can just spend; every dollar has to count, so having a tool that's in real time that lets you see how you're tracking, and adjust your budgets accordingly, lets you really push your growth as hard as you can."

IN BRIEF

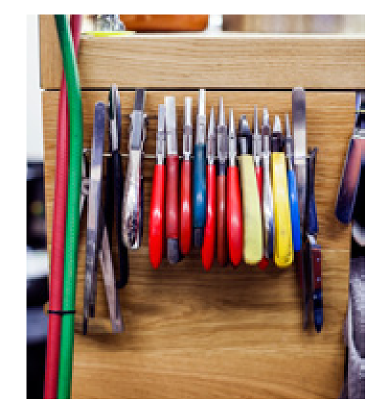
In just four years, luxury jewellery brand Naveya & Sloane has built a business which now employs 14 staff. The company plans for its first offshore store next year. The founders chose Xero accounting software from the outset and have not been disappointed.

www.xero.com
www.naveyaandsloane.co.nz





Growth settings
Alex Bunnett and Rachel Sloane are growing their business organically, so need to keep on top of cashflow–in real time



Cloud clears the way

Xero has built its model around doing business globally from home, thanks to the power of cloud computing. We asked managing director Victoria Crone for some thoughts on how other Kiwi businesses can do the same.

Rod Drury


Victoria Crone

The smaller the business, the less it tends to export – but it doesn't have to be that way
Far too many Kiwi businesses don't offer their goods and services for purchase online, meaning they are potentially missing out on both global and local customers.

Yellow's recent Digital Readiness Survey found only 50% of New Zealand's SMEs even have a website, let alone any e-commerce capability, yet the proportion of consumers who purchase online is far greater.

(Ironically, often the same business owners who use the internet to buy products and services for their business or personal use don't offer their company's own products for sale online.)

"Because we're dealing with global consumers we have to put our products and services into the global marketplace in New Zealand, but also across the world," Crone says.

Internet-based shopping cart services, payment processing gateways and social media advertising can all work together to provide a cost effective new market entry point for businesses.

"Often business owners who use the internet to buy products don't offer their company's own products for sale online"

Cloud services lower infrastructure and overhead for exporters
Taking advantage of cloud services like Skype, Google Docs, and Hangouts make remote collaborating, meeting, and decision-making much more streamlined and affordable than in the past – and company owners can access business intelligence from anywhere.

"The ability to conduct business and to have remote offices and collaborate with those offices really closely is completely different now, even more than it was four or five years ago," Crone says.

"You don't have to have a presence; you just have to be clever and savvy at tapping into the markets and making sure that your product is served up on the internet. Then, you need to make sure you can transact on the internet, and that you are able to ship your product there."

Use social networking for affordable advertising
The inbuilt capabilities of social networks like Twitter and Facebook mean you can gather a whole lot of information about your fans and followers, and use it to drive targeted advertising campaigns, Crone says.

"That's actually a much more cost-effective route than doing things like going into another country, setting up an office, employing marketing people, getting onboard agencies and having to do traditional advertising into export markets."

Licence to earn

Just because a company may not have the capacity to export goods in a certain market themselves it doesn't mean its intellectual property can't still earn export dollars.

Cross border licensing agreements extract value out of IP that might otherwise leave money on the table. Mark Hargreaves, a partner at AJ Park says.

"It's a means of basically exporting weightless ideas and inventions."

He says IP can be licensed out in either geographic or industry markets the owner isn't interested in pursuing. That's what Air New Zealand did when it began licensing out its proprietary Skycouch expanding seat designs to other airlines on non-competing routes.

"A number of New Zealand companies have realised that going global is beyond their capabilities – [whether] expertise or capital constrained – so they leave it to the bigger players to go global with their idea," says Anton Blijlevens, also at AJ Park.

"It lets the big boys slug it out and removes the David-Goliath factor that may put some New Zealand companies off."

That's not to say it's always straightforward - rules on licensing vary significantly by country. In Brazil, for example, Hargreaves says it's hard to get royalties out unless agreements are registered with local authorities.

Moreover, restrictions on the use of improvements to IP can potentially prevent owners from using their own technology. Similar restrictions exist in Europe and China.

"You can't assume it's one-size fits all." Blijlevens says.


Motorbikes in Hanoi, Vietnam. Below: NZTE trade commissioner Tony Martin

PHOTOGRAPHY BY GETTY

Emerging markets

AS EMERGING MARKETS continue to develop, so too does their need for the infrastructure, technology and know-how of the western world. The most often talked about economies are those of the Briscam grouping – Brazil, India, China, South Africa, ASEAN states and Mexico.

"[Emerging markets] are characterised by high rates of growth, rising incomes and discretionary income," says Peter Enderwick, professor of international business at AUT, and the author of numerous books and journal articles on the nature of business in these regions.

He identifies four main opportunities for Kiwi businesses there: new markets to sell products and services to (the focus of the vast majority); lower costs, cheaper labour and land; a "massive" opportunity for learning to do business in new ways and with new models; and innovation in developing countries to take back to the rest of the world.

Of course there are challenges too.

"There is a hell of a lot more competition than most firms realise. Businesses often find local competition, and much more of it, than they anticipated. And if they find the market attractive, so do other firms, so you get clustering – where a whole lot of foreign firms go in at the same time," says Enderwick.

"It's kind of a wild west business scenario."

"There is a hell of a lot more competition in emerging markets than most firms realise. If they find the market attractive, so do other firms"

But emerging markets are also characterised by the growing needs of their middle class, and investment into infrastructure, health and education.

Jorge Forteza, NZTE Beachhead advisor in the Argentinian capital Buenos Aires, says somewhere in the order of $100 billion a year is expected to be invested in South and Central American roads, water, airports and energy over the coming years, for example.

And in emerging East Asian markets like Indonesia, Vietnam and the Philippines, NZTE trade commissioner Tony Martin says there are "huge opportunities" in the health sector.

"Their health industries are only starting to get up to first world standards, and for New Zealand companies operating in those areas, the time is right to jump in."

Rio de Janeiro, Brazil

Selling to the Americans

THE US

Our second largest export market, trade to the United States is expected to be worth over $6 billion in 2014. Those export dollars are largely earned on the back of food and beverage products, especially meat, cheese and seafood, says NZTE's New York-based trade commissioner Peta Conn.

In addition, Kiwis are making "a bit of a splash" in American technology circles.

But while some New Zealand companies have had success in cracking the American nut (think plastic boxes supremo Sistema, network management company Mako Networks, cloud accounting software company Xero and the like) it is still a challenging environment, Conn says.

For a start, America can be an expensive market to tackle, relationships take time to develop, and there is plenty of added complexity from myriad regulations that differ by state and federal authority.

Not to mention it is a huge and diverse country with cultural and geographic distances to cover.

Conn says its better not to tackle too much at once and to instead focus on specific states or cities that resonates most with a business. "Often on a state-by-state basis there's enough of a market to do very well and then expand from there."

SOUTH AMERICA

If you think North America is diverse, just wait until you head south. "There's no unity in this continent," says Jorge Forteza, an NZTE Beachhead advisor in Buenos Aires.

"It's very large and diverse, with very diverse views on the role of business."

In the hierarchy of the continent's business climates, Forteza says Chile is generally at the top and well above the rest. Colombia, Peru and Uruguay follow, thanks to economies forecast to grow faster than for South America as a whole. Brazil comes next, but the climate is "iffy and doubtful", Forteza says, and despite the hype around it there is growing uncertainty.

> **"America can be an expensive market to tackle, relationships take time to develop, and there is plenty of added complexity from myriad regulations"**

The continent isn't one of New Zealand's largest export partners – trade to Chile, Brazil and Colombia totalled somewhere around the $360 million mark for 2013 – though it does appear to have doubled from 2012, according to figures provided by NZTE.

Still, South America is a challenging environment where Kiwis might experience culture shock in terms of business climate, rule of law and intellectual property protection.

But with growing economies and infrastructures, Forteza says there is a demand for the types of products and services New Zealand has to offer.

The exports that tend to do well at the moment in South America come from agriculture and specialised manufacturing industries. But it's in the areas of education services, agribusiness and infrastructure technology where Forteza foresees growth.

It will be those areas that the governments of the various countries look to invest in as they grow their economies and the attendant infrastructures, he says.

"Those require all the kinds of things that New Zealand is good at. All these countries will have to invest in infrastructure over the next 10 years. Around $100 billion a year for South and Central America in roads, water treatment, airports and energy."

PHOTOGRAPHY BY GETTY

Exporting fundamentals

NZTE customer director Terry Allen and Beachheads advisor Morag McCay offer their insights to companies considering offshore expansion.

Are you ready?

Exporting isn't simply about selling your product overseas. Morag McCay says it's about committing to international market development, which takes time, patience and hard work.

Make sure you have a solid-base business before you contemplate exporting, she cautions. The cash, time and resource commitment is big, so ensure you have the capacity and capability.

"Be clear, too, about where your uniqueness lies," she says. "Because New Zealand is small, our companies tend to broaden what they offer to grow here. In mature, developed markets, you may find many companies specialising in different facets of your domestic business. To compete with them, and to have sufficient impact to gain traction and cut-through, you need to focus on what you do that is special – to go 'narrow and deep'."

McCay also warns against jumping on the exporting bandwagon because everyone else is, or because you got a few overseas inquiries on your website.

"People think there's a market, but they haven't actually gone there and done the legwork and homework themselves. Verify that your perception is the reality. It comes back to identifying what customers need and want that you can do well, knowing that what you do is competitive in an international market. Carefully researching markets before you get into them is critical."

"To have never been to a market you're trying to sell into is insane. Getting on the ground gives you a sense of who's in the markets. What products? Where are they in store? How competitive is the space? What sizes are popular? What's the pricing?"

Time to play detective

Researching and clearly validating your target market is essential, says Terry Allen.

"Your product or service may appear on the surface to translate clearly into a market and the opportunity might look significant," he says,"but you need to understand the competition and channels to market."

McCay suggests using your creativity when sourcing information. It's about identifying not just the size and number of customers in a market, but also where your knowledge and access to information are best developed.

"It's critical to consider where your best connections are so you're not flying blind. Understand where you might get that information from. Supplement the structured, formal information provided by business associations, NZTE or other government departments with the different types of insights you can get through your own personal networks – business contacts, friends, colleagues, family, other companies trading in that market."

The more information you have, the better you can manage risk, she says.

"Knowledge is power, and doing international development is about committing people and thinking time to go and do that sort of squirreling."

Get up close and personal?

With your homework done, visiting your market is essential so you can see where your customers live and shop, and what retailers and distributors might service your category.

"To have never been to a market you're trying to sell into is insane," says McCay. "Getting on the ground gives you a sense of who's in the markets. What products? What brands? Where are they in store? How competitive is the space? What sizes are popular? What's the pricing?"

It's also crucial to know exactly who and where your customers are, and to realise that the word 'market' does not mean 'country'. While New Zealand and Australia are quite homogenous, large countries like China and the United States contain many distinct markets, so it's important to select key cities in specific regions.

"When some people start thinking about exports, they're not thinking about international business development, but simply putting product in a container and sending it somewhere for someone else to sell. The whole process they'd go through before launching a product here almost evaporates.

"For me, the word 'export' indicates not going and doing the market work. It's more product-centric rather than market- and consumer-centric. Spending time understanding where the consumer is and what channels service that consumer gives you a far better perspective on what's required."

Terry Allen joined NZTE in early 2014. Over the last 20 years, he has held senior roles in multinational technology companies, including Microsoft New Zealand. He founded Allen Strategic, which specialises in the provision of governance, strategy and execution services at board and executive level.

Morag McCay has worked in corporate and entrepreneurial businesses and led overseas development in the United States, Japan and Hong Kong. An executive director in the UK for 12 years, she has held senior marketing and commercial roles at a number of global companies. Since returning to Auckland, she has been investing in developing high-value food and beverage products for Asia.

Pitfalls a-plenty

Focusing on the product but forgetting to build a brand in your new market is another big blunder some companies make, says McCay.

"It comes back to knowing your part in the value chain and choosing the right partners. You need someone in market who will represent and build your brand. Rather than being just part of the selling chain, the skills of those intermediaries and partners who distribute your product into market are absolutely critical."

Allen says companies often try to cover way too much ground, and recommends a targeted and staged approach.

"Some companies want to target the US, Europe and Asia simultaneously. It's not a wise strategy as it stretches the company way beyond what it can deliver.

"Some also try to bootstrap market entry," he says. "They may be significantly under-resourced and try to serve markets without in-country representation.

"To be taken seriously in a market, you generally need a presence there. We frequently see companies underestimating the cost, overestimating the sales ramp and not placing enough focus on making sure the in-country presence has strong communication and cultural alignment with head office."

Help is at hand

Organisations like NZTE can offer New Zealand businesses advice on strategy, market insights and contacts.

McCay says NZTE's Beachheads network is a great way to really challenge people to think about their business design, making sure it's fit for purpose before going into international business development.

"NZTE also has a great range of market information to help build the basics around market attractiveness – the size of opportunities, key cities and populations – high-level market information that can give you the sense of scale and proportion. NZTE's network of offices around the world is a great augmenter to that."

"For me, the word 'export' is more product-centric rather than market- and consumer-centric. Spending time understanding where the consumer is and what channels service that consumer gives you a far better perspective on what's required."

NZTE's Path to Market Programme is another active programme especially in the Asia-Pacific area.

"It's an opportunity to look in detail at key cities and routes to market," says McCay. "To maximise the benefit, you need to be well prepared before you go on these trips. Be clear about what information you need.

It's not just strolling around streets, looking at a few outlets and talking to distributors. These are intensive, hard-work trips. They're opportunities to create connections, and the channels they open are more significant than you'd get on your own."

Allen says being honest and forthcoming will help you get the most out of working with NZTE.

"It pays to engage with us early and to be transparent about your strategy, strengths and weaknesses. Unless we know what these are, it's difficult to help."

IN BRIEF

Export is not about sending your product to a different country. It is about knowing another market, including who and where the customers are, what products they are buying and from whom. Then it's about building a brand in the new market. NZTE can offer New Zealand businesses advice on strategy, market insights and contacts.

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Photo Souvenirs
Magic Memories' point of sale tablets are being used at Sea Life in London. Below: Group CEO John Wikstrom

Picturing export success

New Zealand Trade and Enterprise (NZTE) has helped tourism attraction photography company Magic Memories expand its offering from the South Island to markets around the world

LIKE MOST KIWI companies, Queenstown-based Magic Memories started small, offering its photography services to local businesses. Visitors to the Queenstown Gondola, for example, were snapped during their journey, and then Magic Memories offered the photos for sale at the end of their visit, as a momento.

Twenty years later, the company is no longer local. With offices in three continents and partners in eight countries, it offers tailored photography experiences and products to more than 90 tourism attractions throughout Asia, Europe, Australasia and North America.

Every year, 50 million visitors get their photo taken in a Magic Memories' partner attraction. Then, using technology to blend content and context, the company tells and sells personalised, relevant stories to the customers and offers the final product in a

“Our brand values and our user proposition are very clear to everyone in the business.”

mix of published and digital formats.

Co-founder and group CEO John Wikstrom describes how Magic Memories didn't really plan to go offshore; it was just an outcome of its local success.

“In New Zealand, others started asking for our particular business model,” he says. “In 2005, we looked to Australia as another market, and from there we were invited to partner with a company in London in 2010.”

Europe is currently Magic Memories' biggest market, with North America experiencing rapid growth. The company has also licensed partners in China and South Africa.

“Our brand values and our user proposition are very clear to everyone in the business,” says Wikstrom.

“We've built a strong executive team. We have weekly revenue and export calls with key executives, and global benchmarking, KPIs and trends that we measure across sectors...You need to have these controls in the business when you're in rapid-growth mode.”

Wikstrom says it's crucial to understand your different markets and the demographics within them, and test your offering.

“You can't expect what you've done in New Zealand to necessarily work overseas. You have to ...test your product with users in other markets and observe how they consume it.

“Then you need to tailor it appropriately, while still keeping focused on your competitive advantage.”

Wikstrom says Magic Memories has received valuable advice, contacts and support from NZTE to help inform decisions around its international expansion.

“We have a wonderful relationship with NZTE. It isn't there to run your business; it is there to help power up your business – whether it's via contacts, market research, Better by Design courses, access to regional executives who can help you ...understand your product in that market, or helping you fund regional growth initiatives – and I think we know how to get the most out of those services.”

He says NZTE's Beachheads programme, which connects participating companies to a network of private sector mentors and advisors, was an important part of Magic Memories' exporting success, as was Better by Design and growth funding.

"[We] make sure we keep in very close contact with NZTE ... There's simply no doubt that NZTE has helped Magic Memories be bigger, better, faster. We've found the best way to engage with NZTE is to tell them our problem or the opportunity we want to maximise and ask how they can help.”

IN BRIEF

Magic Memories has used NZTE services and resources to expand its tourism momento photography business from Queenstown to four continents and 50 million visitors

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www.magicmemories.com
www.nzte.govt.nz

Bondi beach, Sydney

PHOTOGRAPHY BY GETTY

Australia: More than just a big Auckland

AFTER RECENT REPORTS that Australian supermarkets were taking Kiwi products off their shelves, NZTE Australia and Pacific regional director Michelle Templer says there's a perception New Zealand products are less welcome.

But in reality, that's not the case, she says.

“The big thing we've observed recently is that the companies who are committed to the market are still growing quickly in Australia,” she says. “It's a fantastic market for New Zealand companies still getting to grips with emerging markets opportunities or looking for cash flow while some more traditional markets have gone through challenging fiscal constraints.”

Kiwis currently export over $2.6 billion worth of goods and services to Australia, but own only 16% of the total market those goods comprise – so there's lots of room for growth. Australia is a natural choice for extending the domestic market, and there are many advantages to entry – not the least of which is that it's relatively easy, thanks to the Closer Economic Relations agreement.

But Templer says there is a danger in treating our neighbour like “a big Auckland” and failing to understand its scale and complexity. It's a huge country and cultural differences can be almost as vast as geographic ones. Instead of trying to cover the whole country at once, Templer recommends picking a state to target and expanding from there.

As in other countries, New Zealand's

“There is a danger in treating our neighbour like a "big Auckland" and failing to understand its scale and complexity”

biggest export strength in Australia is in its value-added food and beverage products. But that's not to say there isn't opportunity in other categories, she says.

“New Zealand is seen as a leading example of integrated primary care and health informatics, delivering more efficient outcomes in patient care and wellbeing.”

That's important on the back of the $A140 billion the Australian government invests every year in health products and services.

Fierce competition for customers means a ready market in Australia for technology products that give businesses an edge.

Fast-tracking Kiwi tech companies' access to the Australian market is part of the reason behind NZTE's collaboration with Melbourne's York Butter Factory accelerator.

“Australia is hungry for anything that improves competitiveness, cost efficiency and productivity,” Templer says. “There's a real interest in effective technologies that deliver those outcomes and results.”

Lessons from abroad

Peter Enderwick, Professor of International Business at AUT University, offers his perspective on exporting in New Zealand.

Q What's the outlook for New Zealand exports?
A The government is committed to ensuring exports account for 40% of GDP by 2025. We've been at around 30% for a while now. The outlook is positive and our desire is strong; what's missing is a plan to get us from where we are to where we want to be. It's still based on this expectation that markets will grow. The forecast growth in China is massive, with huge population increases and rising incomes, and we're well positioned to capitalise on that if we know how. There are also opportunities in emerging markets like India and Vietnam.

Q Where can we improve?
A It's the old 'we could do more' in adding value to some of our products. We can't do this in every industry – we can't compete with China turning timber into furniture – but why produce the world's finest merino wool then send it offshore for processing? We could be enjoying a huge mark-up on the end product.

We still laud the owner-farm, which is medium sized in world terms but it's just producing wool, milk or meat. It's not integrated into anything else. For some companies it's a mindset or a lack of ability to integrate R&D and investment into downstream processing. But we do have companies that recognise the opportunities and are doing very well as a result.

Q How are we helping exporters?
A The government has focused on getting trade agreements with countries like Korea and China. This opens the door for Kiwi companies, but it doesn't get them into the market. It's primarily based on trade rather than other ways of doing business, such as investing, licensing technology, or partnering – options that we don't discuss much.

While there are huge opportunities in terms of e-commerce, there's still no substitute for face-to-face interactions, particularly in Asian cultures where people won't do business unless they know and trust you. Government is helping weightless exporters by investing in better technology and faster internet. That type of infrastructure is as important now as roads and railways used to be. Technology facilitates things but it doesn't solve everything.

Q What challenges do exporters face?
A The usual things: limited experience and capital, distance, getting information, the scale of what they have to do. Supplying these huge markets can be overwhelming.

There's also the complexity of doing business abroad. Some companies discount the amount of competition because they think they're in a different market segment to local businesses. But even highly resourced, experienced companies can get caught out. Lion Nathan went into China with no idea how the market really worked or how many competitors there were. They found 850 breweries. Most were largely localised, but the market was completely different. There was no national beer market or national brands. People didn't binge drink; they bought one bottle of beer for the weekend.

> **"Lion Nathan went into China with no idea how the market really worked or how many competitors there were. They found 850 breweries."**

Exporting is risky for any company and markets are volatile. Despite trade agreements and an open, liberal world economy, political upheavals and currency crises can close the door on existing or potential markets. Getting it wrong overseas can bring down not just your overseas business, but your domestic business as well.

Q How do we avoid these issues?
A Get all the information, advice and support you can. There's lots of advice around, from organisations such as New Zealand Trade & Enterprise, specialist consultants, and service industry providers who can provide insights and market connections to their clients.

Kiwi firms could do a lot more to work collaboratively with each other on international projects. We still have a strong competitive perspective, when we should be looking at ways to collaborate or piggyback on larger companies doing work overseas. We could learn from Australia's example in this regard.

IN BRIEF

AUT's new Master of Global Business programme aims to prepare existing businesses for export success. It covers areas including: legal, political and economic differences; developing successful international business strategies; managing the export process; and dealing with cross-cultural issues.

AUT UNIVERSITY

To find out more, contact Professor Peter Enderwick peter.enderwick@aut.ac.nz, www.aut.ac.nz/business

Preparing future exporters

AUT University has introduced a new postgraduate degree to give students the tools and knowledge to take on roles involving cross-border activities. The Master of Global Business is an intensive professional master's degree aimed at those with around eight years' work experience.

Dr Peter Enderwick, Professor of International Business at the AUT Business School recently welcomed the first intake of students, and aims to turn out more people interested in doing business overseas.

"Hopefully, our graduates will stay in New Zealand and help us here, or, in the case of international students, they may export to us from their own countries."

The course covers core knowledge and skills in international business, and delves into specialised areas such as the business environment in different countries; understanding legal, political and economic differences; developing successful international business strategies; managing the export process; and dealing with cross-cultural issues.

"At the end of the course, we step back and look at the bigger picture," says Enderwick. "We consider things like managing global inequality, failed states, the evolution of global factories, and issues of ethics. Students also do a work-based research project."

Enderwick believes the Master of Global Business responds to what the market wants and what would benefit New Zealand.

"It's a much more real-world, professional approach than most academic courses. When formulating the content and format, we consulted a number of business associations, chambers of commerce, and industry people. Everyone's been very supportive and there's a strong interest in what we're doing."

Owning it

Nixing middlemen and establishing owned sales and distribution promises greater rewards – but not without a fair bit of increased risk. Thankfully it's not an either-or proposition

WHEN GROWTH GOES well it's natural to start thinking about how to own more of the process – and more of the profits. But determining whether or not that's the right decision will require careful consideration, says NZTE customer director Alan Koziarski.

First off, is it even possible to sell directly to customers, and if it is, can you realistically do it better than the current distributor? And what's the strength of the relationship?

"Do you represent 0.001% of their business and have 10 slots in a catalogue of thousands, or do you represent 40% and have an equal sense of priority in each others' business? Who has the biggest brand, you or the distributor?" he says.

Answers to these questions can help determine whether going it alone is the best option, rather than switching distributors or working through issues with the current one, Koziarski says.

"Our advice is to get a sense of this dynamic and be realistic and practical about it."

If there are problems, he cautions that before jumping ship from a distribution deal, companies need to be sure of where the problem lies and that expectations are realistic. It's important to establish how mutually beneficial the relationship is between exporter and distributor.

Peta Conn, NZTE's trade commissioner in New York, says companies often underestimate the value and strength of distributor relationships with buyers when they are considering dumping a distributor.

She says it is a mistake to assume your own sales staff will necessarily always or easily be able to duplicate those relationships, especially where they are longstanding and entrenched.

But sometimes even when third-party distributors work well, they're still no substitute for a business' own staff putting passion into the brand, gathering market intelligence and keeping in close contact with head office back in New Zealand. And if travel costs to a particular region are mounting, appointing permanent staff can result in cost savings, even without accounting for the extra potential business wins.

"Do you represent 0.001% of their business and have 10 slots in a catalogue of thousands, or do you represent 40% and have an equal sense of priority in each others' business?"

Peta Conn

Alan Koziarski

That's been the case for bark and moss producer Besgrow, which recently took the plunge and appointed its first full time sales associate in Australia. The appointee will work alongside an existing distributor rather than replacing it – and is in fact a shared venture - but chief executive Andy Doherty says he does expect the business will win from the increased focus.

"It's about having someone that's focused 100% on our product. Often within a business you've got other products to compete against – and with a lot of export business the workload goes and comes with you," says Doherty. "So as you visit a market they increase and as you leave the market it decreases. Obviously the more time you spend in the marketplace, the more traction you're going to get by having someone totally focused there 100 percent of the time. That just focuses exposure completely.

"A lot of [the benefit is] internal, taking away the noise and potential blocks of making business simple," says Doherty. "Someone's on tap to answer a phone or answer an enquiry. Even though there might be someone in another country ready to do it, it just makes it that much simpler to have someone there."

Coffee cups catch on across the ditch

When Darren Turner, general manager of reuseable takeaway coffee cup company Cuppacoffeecup decided to launch into the Australian market he had a couple of aces up his sleeve. He had spent a couple of years working across the ditch in a previous FMCG corporate incarnation, and he has an Aussie-born investor and business partner. Turner thought he knew the ropes, but found there were plenty of traps for young players. He shared tips with Nikki Mandow.

You moved on Aussie pretty early. Was that wise?
We began trading in late 2011, and soon after we learnt there was a massive coffee trade show taking place in Melbourne in 2012. It was just too good an opportunity to miss. Exhibiting there probably cost $20,000-$30,000, but it gave us customers to start exporting.

Are there cunning tricks about selling in Australia?
It's about getting costs down. Take freight forwarding. Initially, we just focussed on getting the product to the destination on time. But there are loads of different services available based on frequency, size, weight and different transport options. You need to spend time looking at the options and working out which is most cost-effective.

Next, we made sure our packaging kept volume as low as possible.

Tariffs – isn't that pretty cut and dry?
No, and it's hard to get the correct information. We assumed our original freight forwarder would get us the best deal, but after receiving some hefty bills we made our own enquiries and we discovered that because our cups are made in New Zealand they are exempt from some import duties. We saved 5%-10% that way, which can be significant. But if you don't make the right declaration on your invoice, you get charged.

You also want to get smart with GST. We were incurring Australian GST, and we couldn't claim it back. That's one of the reasons for setting up an Australian company.

Sounds a bit complicated.

My wife is a tax solicitor and my business partner is an accountant, so that helped a lot. I'd advise getting some help, but of course outside advice isn't cheap and that's more money you can't be spending on your growth activities.

Oh, and remember to factor in public liability insurance in Australia.

An Australian office – isn't that a drastic step?
We came away from the Melbourne trade fair with maybe 80 good leads, but being in New Zealand was a barrier to converting them to sales. They'd say: "Come and see us", but we couldn't, or they'd think our product wouldn't be competitive because of the shipping costs. Or they'd worry about the exchange rate.

We set up an Australian bank account, but there was still the perception dealing with us would be more difficult than with our Australian competition.

Isn't getting a distributor an easier option?
We thought about the distributor route, but found there's a massive margin loss – 40%-50%, or even a bit more. As a lowish margin business (our coffee cups retail $15-$16.50), that wasn't going to work financially.

Surely an office is expensive?
We'll start with a couple of sales staff in Sydney, including Andrew [Currran], my business partner and investor. But logistics and distribution will still be outsourced, so we don't have the expense of shelving racks, forklifts etc. We can supplement that with people coming over from New Zealand.

What about expanding beyond Australia?
That's more difficult. With Australia we feel we have enough contacts and knowledge. In another country, I'm not sure we'd enter ourselves; maybe through another company on an agency basis.

IP strategy crucial to export success

New Zealand is an awesome place to develop your tech company, but many fail to fire abroad. AJ Park partner and patent attorney *Anton Blijlevens* offers some insights as to why this can happen.

FOR MANY NEW ZEALAND SMEs, the domestic market offers the right mix of opportunity and risk for business. It's small enough to achieve a first mover advantage, it's relatively easy to get a new product or service to market, and depending on the industry you're in, it's big enough to build a decent sized business.

But when it comes to exporting, only a few flourish on the international stage. There are several reasons for this, not least access to capital and the inability to scale quickly or profitably. There's another, less obvious reason, and that is the intellectual property environment that exists here.

New Zealand ranks number 20 globally for number of patents filed, which generally means there is plenty of freedom to operate for many areas of technology – the patent thicket is not so thick. And because the patent portfolios of many international companies do not extend to New Zealand, the risk of being sued for infringement when designing and commercialising technology here is vastly reduced.

However, what some New Zealand companies fail to realise is that freedom to operate here doesn't mean freedom to operate elsewhere. In larger overseas markets, where patent filings are more prolific, there is a proportionately higher risk of infringing the IP rights of others.

Australia, for example, ranks at number 10 for patent filings globally. Nearly four times as many patents are filed there than in New Zealand. Further afield, in China and the United States, the numbers are even more staggering. In 2012, 652,777 patents were filed in China, and in the US it was 542,815. Very crudely, this means you are roughly 76 times more likely to be sued for patent infringement in the USA. This is of course a generalisation – some industries are more prolific at filing patents and some countries receive more patents in some areas of technology than in others.

The point is that many New Zealand businesses fail to fire on all export cylinders because they don't have freedom to operate in the markets they wish to enter or they haven't got sufficient IP protection in place to protect their international expansion from the 'me-too' companies out there.

Add in the sheer number of competitors in other countries and the lack of capital to be competitive, and it's easy to see how some New Zealand companies struggle to make inroads abroad.

If a Kiwi company copies your product or technology here at home, you might very well be able to resolve it over a chat and a beer. Repeat offenders soon get a bad reputation. Bad reputations are hard to shake in a small country like ours.

But that approach is unlikely to work overseas where the stakes are much higher and the competition stronger.

Look closely enough and you'll likely discover that our most successful exporters have robust IP protection in place for all their major markets. Sure, in some technology areas, patent protection is irrelevant. Short life cycle products such as certain software and smart phone apps fall into this category. But even with narrow IP protection and short life cycles, software and app patents can be incredibly valuable, particularly because of the mass market access that is available for products of this kind, and where distance to market is not an issue.

“In 2012, 652,777 patents were filed in China, and in the US it was 542,815. Very crudely, this means you are roughly 76 times more likely to be sued for patent infringement in the USA.”

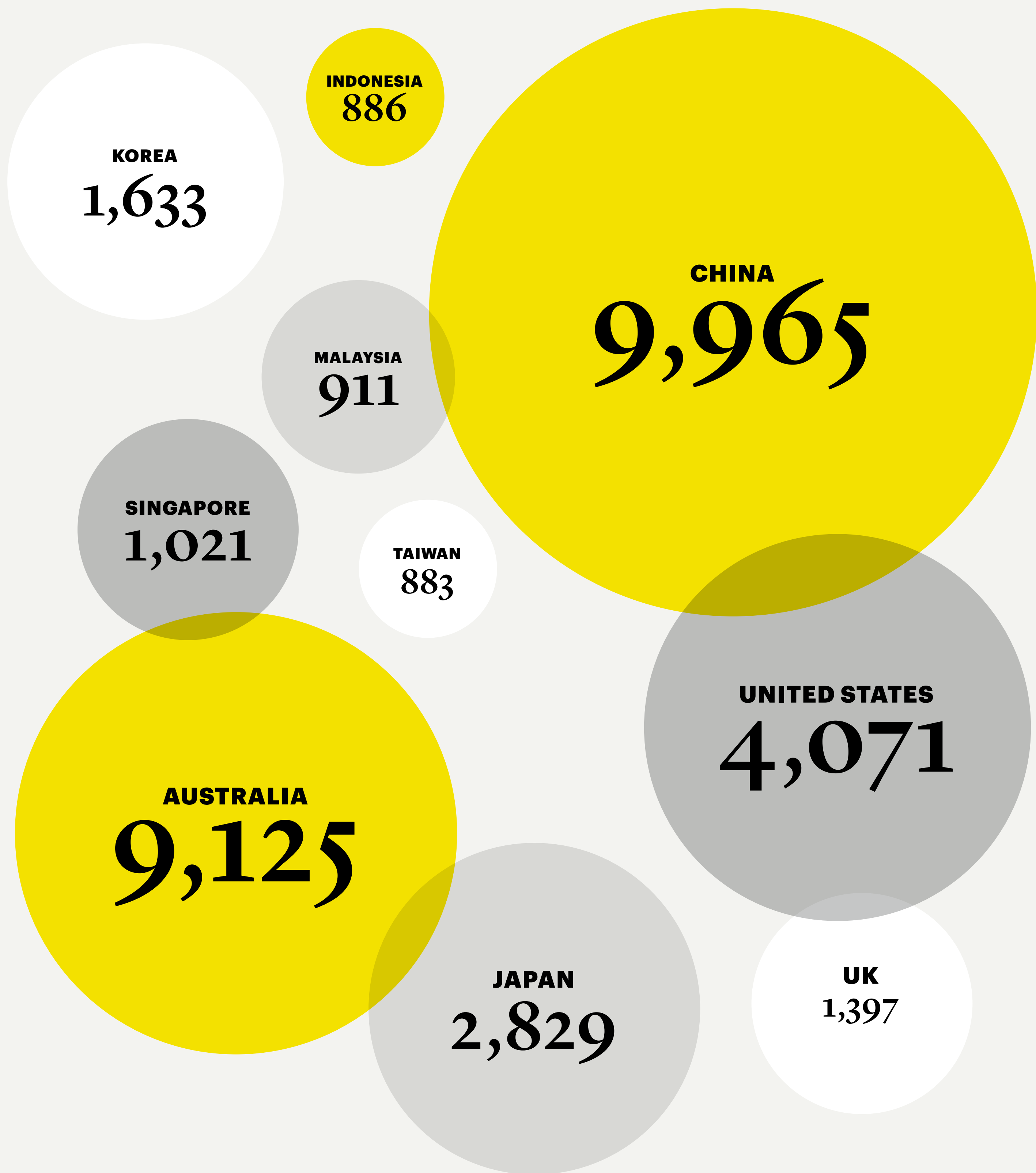
The lack of patents owned by foreigners in New Zealand means New Zealand companies are not as exposed to the patent world and the possibilities of what patent protection can do for their business.

Some companies, like PowerbyProxi and Lanzatech, have got it right. Both have invested wisely in patent protection to help them get on a much steeper, faster escalator to growth internationally. But they're still in the minority unfortunately.

If you want to increase your chances of export success, think very carefully about your IP position and whether you have the freedom to market, sell, or license it in the markets you wish to enter. Getting this right will be well worth the time and money – providing you take action early on in the game.

Pictured above, PowerbyProxi's VP Business Development Tony Francesca addressing reporters at this year's Computex in Taipei. **Below,** examples of PowerbyProxi's resonant wireless charging for consumer electronics.

New Zealand's top export destinations ($m, 2013)



SOURCE: NZTE

PHOTOGRAPHY BY GETTY

Going all-in

Taking the plunge and establishing full-blown operations overseas sounds like a big step. It is. But it's not an impossible one.

"**HIGHER RISK AND** higher reward go hand in hand with maintaining control over the end-to-end process," says Mark Hargreaves, partner at intellectual property specialist law firm AJ Park. That's an understanding driving more Kiwi businesses with big aspirations to set up their own operations and headquarters overseas.

Some of our biggest exporters have done just that: Fonterra has set up shop in head offices and processing plants around the world, while med-tech specialist Pacific Edge has a secondary research location in Pennsylvania. Fisher & Paykel manufactures in the USA, Mexico, Italy and Thailand, in addition to home.

"If you're going to be a big company you need to be somewhere where you've got access to the right skills, and we've got to be realistic about the skills here and the volume of them," says Hargreaves. "You've got to be able to tailor products to different markets. You've got to get people who understand the culture. To think we will grow really big businesses based in New Zealand without investment into key markets is a bit naïve."

Obviously going the whole nine yards isn't something new exporter businesses should do right off the bat; only after years of market development and growth. Whether or not it's then the right idea to establish manufacturing or head offices offshore becomes a question that is hugely dependent upon the individual business, its capabilities, and the market it's operating in.

For Pultron, a Gisborne-based composite parts manufacturer, those questions became much easier to answer after it identified the huge growth potential for its business in the Gulf Coast, where it had been operating for years.

The high salt content of sea and soil, coupled with high rates of construction, means the region is a prime market for Pultron's corrosion-free reinforcing rods.

> **"To think we will grow really big businesses based in New Zealand without investment into key markets is a bit naive"**

Low labour costs and a business-friendly climate in Dubai's free trade zones where the company opted to open its secondary manufacturing plant, made the decision much easier. However, that's not to say it has been a quick process.

"It probably took about three or four years to feel confident to manufacture there," says managing director Jasper Holdsworth. And when it did, production was transferred on a staged basis, starting with low-grade items first to keep risk low.

"One of the things we needed to do was inject initiative into the workforce. We've done that but it's taken a long time."

Holdsworth says one of the most important pieces of the puzzle was making sure to have the right people for that stage of the business. "You've got to have a real solid team. And you've got to have persistence. Basically once you've got those things, it boils down to understanding your value proposition, making sure you have product differentiation and defendable intellectual property."

Whichever strategy is opted for, businesses need to make sure it works in their interests, says NZTE customer director Alan Koziarski.

"Like most international business issues, a customised solution is needed. This solution should be driven by your customers' needs, your strategy in meeting them, and above all doing it profitably."

Gulf Coast Countries

In many ways the Gulf Coast Countries are the opposite of New Zealand: high expatriate populations with wealthy oil rich economies that lack significant food and agriculture production. That means we're well positioned to provide what the GCC doesn't have, as they are to pay for it, often at a premium.

In Dubai, perhaps one of the most business-friendly states of the GCC, designated free zones allow foreign enterprise to locate there and avoid corporate taxes and sales duties.

As Haylon Smith, NZTE trade commissioner for the Middle East, notes – that's particularly attractive for manufacturers using Dubai as a regional export hub. And quite a few Kiwi companies are already investing there and the Middle East. Smith notes Burger Fuel, Trelise Cooper and Pumpkin Patch all have retail outlets in the region, while Tegel chickens are flown in to the supermarkets and, as mentioned, Pultron has located manufacturing in the region.

Because food security is such a big issue for the region, Smith says he sees food and beverage exports continuing to play a big part for Kiwi businesses – and it's only going to grow. Education and health technology are another growth sector. "Countries here have built up very quickly," says Smith. "They can learn a lot from countries that have spent a lot of time developing healthcare and education."

Guangzhou, China

The Red Potential

CHINA IS NEW ZEALAND'S single largest export market, with the value of goods sold there exceeding $12 billion in 2014 – twice that of our exports to the United States – and we have a $3.1 billion trade surplus, even though just four years ago there was a massive trade deficit.

But let's put that in a little bit of context: we are just one of 134 countries for which China is the largest export market. Add to that the country's own renewed focus on producing for its internal market and, as Mike Arand, NZTE's trade commissioner in Shanghai says, "effectively the whole world is focused on China".

That China is attracting so much competition certainly has something to do with its need to feed 26% of the world's population on 6% of its arable land, or its burgeoning middle class growing by 10 million people a year.

"New Zealand is very well positioned with our free trade agreement and relationship with the trade history we have, to deliver into that," says Pat English, executive director of the New Zealand China Council, an organisation launched by the government to strengthen relationships between the two countries.

And the relationship is a strong one, despite the botulism brouhaha last year. "China kept buying New Zealand products throughout. They paid greater attention and we received more scrutiny – but the business kept growing."

Obviously with a market as large as China's and a trade relationship as strong as we have, the opportunities are huge. Food and beverage exports have doubled between 2011 and 2014, with a big part of that growth in dairy and milk powder.

"We're also seeing growth in agritech," says Arand. "That's really starting to pick up and part of that's around how China supplies its domestic needs."

Other industries Arand identifies as areas for growth include clean technology, especially where it can assist in cleaning up the environment, and health and nutrition.

> **"China must feed 26% of the world's population on 6% of its arable land. Its burgeoning middle class is growing by 10 million people a year"**

But the challenges often equal the opportunities. Even apart from the intense competition, the market is vast, highly regulated and complex, and costs are high especially if goods need to be transported outside the coastal hub.

While the fundamentals of exporting may be the same around the world, with due diligence, IP protection, deep pockets and perseverance featuring heavily – Arand says it's amplified in China. "You've got to do the fundamentals, but do it much better in China."

Things take longer in China, says Mark Hargreaves, of the intellectual property law firm AJ Park.

"The rules, particularly around IP licensing and joint ventures, are complex, slow and a fairly bureaucratic process. Be prepared for things to take longer, watch the translation process – make it clear which version is the one you rely on and make sure translations are done really well.

"Keep things simple; try to work with people who have worked in that market before."

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