

The Idealog Guide to South East Asia & China

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The Idealog Guide to South East Asia & China

We've all heard anecdotes and stories about dealing with Asian markets. And while you shouldn't shy away from taking your ideas to the world, you shouldn't go into it with blinkers on, either. Herewith, dear reader, our ultimate guide to South East Asia and China

Some of us might be a bit touchy right now talking about milking the Asian market. But despite the recent Fonterra face palm, a few rotten apples and shocks in the stock markets of some of the emerging economies, there are still great and growing riches to be had around the South China Sea. New Zealand business buccaneers with the savvy to operate in places such as China, Indonesia, Malaysia, Singapore, Thailand, Vietnam and Cambodia can make good money.

South East Asia and China continue to be our fastest-growing export markets, but there's been a paradigm shift from simply looking to these places as production sites to seeing the whole country and its potential as a market and business partner.

It's not hard to see what's driving this: China generates in a week the kind of wealth it takes New Zealand a year to scrape together. Dominic Barton, global managing director of McKinsey and Company, has worked out a few significant estimates.

"By 2022, China's middle class should number 630 million. By 2022, we expect China's middle class to be consuming goods and services valued at US\$3.4 trillion. It is imperative that companies get

to know the new Chinese middle-class consumer in intimate detail. Consider, for example, that China is already the second largest digital camera market in the world after the United States.

"Or take flat-screen TVs," Barton says. "In 2012, sales totaled 50 million units – more than the 42 million units sold that year in the US and Canada. China is also already the largest retail market for laptop computers, and laundry softener sales have grown by 20 percent annually for the past five years, exceeding the sales of both Germany and France."

To this we can add rapid growth in the service sector, reflecting the increasing willingness of Asia's upper middle classes to spend on entertainment, leisure, care services for the elderly, security services and equipment such as burglar alarms and security cameras and education.

But it's one thing know the scale of this market and another thing to be able to reach out and take advantage of it. You need detailed intelligence, cultural understanding, and advice on making the right contacts. You need strategy – and you need tactics. This guide provides some basic training, and advice from some of those who know the lie of the land.

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CHINA

Are you export-ready for Asia?

The first step to succeeding in exporting to Asia is overcoming a couple of key mental hurdles

Every journey starts with a single step, but it can also be the point at which you put your first foot wrong.

There are two main ways to ensure failure at exporting to Asia. The first is not to even try it, because you talk yourself out of it, limiting your ambitions to other, more familiar markets. Peter Enderwick, Professor of International Business at AUT, is targeting the engineering and building sectors on this one.

“The companies were focused on the Rugby World Cup, now they are focused on rebuilding Christchurch. Most of them don’t seem to be interested in the massive infrastructure projects happening in India and China – it’s just too attractive to stay in this market.”

So if you don’t really want to be rich and have the opportunity to innovate on the cutting edge, then stop reading now.

The second problem, at the opposite end of the bravado scale, is to believe you are ready before you really are.



‘Many companies don’t seem to be interested in India and China’s massive infrastructure projects – it’s just too attractive to stay in this market’

Peter Enderwick, Professor of International Business at AUT

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intellectual property



Alan Gourdie, a former Telecom Retail chief executive and global marketing manager for Heineken, is now adding his expertise to design agency Designworks as a non-executive director.

"We often talk about companies being export-ready and their brands being export-ready," Gourdie says. "What we mean is how well they are defined in terms of their architecture and fit with the identified consumer. There is no room for error there – you have to be absolutely locked down. Any looseness in language or definition gets amplified as you go into the market, so having a very clear shape to your proposition from a brand point of view and a product point of view is critical."

The first thing you need for success in Asia, then, is the same thing you need for success anywhere. You need to know exactly who you are as a business, what you stand for, what sets you apart and what you want to achieve.

'There is no room for error there – you have to be absolutely locked down'

Alan Gourdie, Designworks



'You need to be absolutely crystal-clear on what your proposition means'

Sven Baker, Designworks



According to Designworks chief executive officer Sven Baker, "You need to be absolutely crystal-clear on what your proposition means."

You need to be able to say clearly what your company does better than anybody else, or more accurately, everybody else that is currently wading into the Asian market. There is a tendency to think that if you're quite good at making X, the odds are that there must be millions of new middle-class Chinese people who might want it, and you might be right. But you might also be catastrophically wrong once you realise that everybody else that makes X or its equivalent has thought the same thing and you are entering one of the most competitive markets in the world.

As Gourdie puts it: "Nobody is waiting for you."

Spreading the risk

Paul Gestro is the kind of guy who has seen things go wrong too many times. His current job is evidence too that his employer, BNZ, takes that kind of risk very seriously on behalf of their clients. Gestro has been in the newly created role of Head of Asia Desk since February after previously being a New Zealand Trade and Enterprise (NZTE) director.

"Smaller companies without the governance and rigour behind them are often just borrowing on their house," Gestro says. "That could be quite risky. They might just have one seemingly genuine contact, so they send their goods without any idea of when and how they will be paid. They can risk their whole business doing that, and wonder why cash flow is a problem. It pays to be well-briefed and call in the experts to partner with them and give good advice on what to spend that precious money on."

He advises doing, at the very minimum, the basics yourself by at least considering the region's political and economic stability and the stability of the particular governments. The initial step is a simple risk analysis, particularly risk of rapid and extreme changes in value due to smaller markets,



differing accounting systems, reporting, or auditing standards, the possibility of nationalisation, expropriation or confiscatory taxation as well as economic, political or diplomatic changes.

"If your business is highly dependent on cash flow, you should ask yourself, do I send two containers to somewhere less stable, which could yield big returns, or just one to somewhere like Australia, where I know I am going to get paid?" he says.

Gestro also recommends spreading your risk, so that if you are planning to export to, say, China, you don't just export there, so that you have something to fall back on. You also don't want to let smaller markets you have already captured dwindle away – you might yet need them again.

Enderwick offers the same advice: "There's still concern that things will not go well in China if there's a political incident with Tibet or Taiwan," he says. "This is often referred to as a China Plus One strategy, although some firms have a China Plus Two or Three. They set up duplicate or similar plants in Vietnam and Cambodia."

China IP 101

The Chinese market presents great opportunities for New Zealand businesses, but also some risks. Careful planning and consideration can go a long way in helping you mitigate these risks. Before packing your bags for China, get the lowdown with trade mark and branding expert Corinne Blumsky and patent expert Anton Blijlevens

How can I protect my brand in China?

Corinne: The best way to protect your brand in China is to register it. Like many Asian countries, China's trade mark law currently follows the rule of 'first to register, not first to use'. The longer you wait to file your trade mark in China, the greater the risk of someone else claiming rights in your trade mark before you can. However, this is about to change. From May 1 next year, the right of prior use will be introduced into China.

Should I register a Chinese version of my brand?

Corinne: Yes – you should register English and Chinese versions of your trade mark. Even if you intend to market your product using the English version of your trade mark, it pays to register a Chinese version, too, if only to prevent someone else from doing so.

When marketing my product in China, should I use the English or Chinese version of my trade mark?

Corinne: When deciding which version of your trade mark to use, you should consider whether Chinese consumers will be able to pronounce and recall your English brand easily. If they are likely to struggle with this, using

the Chinese version may be preferable.

If local consumers struggle to pronounce your brand, they may adopt their own translation of it – and you're unlikely to have control over what that translation is.

How should I choose the Chinese version of my brand?

Corinne: The first step is to have a clear understanding of what you want your brand to say and how you want local consumers to interpret it. Once you have this message in mind, look at the literal word-for-word translation of your English trade mark into Chinese. Does the translation align with this message? If not, a literal word-for-word translation may not fit with your brand.

The next step is to consider other meanings attached to the words contained in your trade mark. You should consider nuances, associations, and phonetic appeal, as well as associations with local literature, historic figures, and legends.

In addition to differences in word meanings, colours often invoke different emotions. When choosing a colour, do your homework and make sure there are no negative connotations.

Can't I just slap a dragon on the packaging, change the



Corinne Blumsky and Anton Blijlevens

colour to gold, and add a few Chinese characters?

Corinne: No! You should carefully consider your options, and if possible, seek advice from a trade mark and branding expert.

Why should I protect my IP in China?

Anton: Having appropriate forms of IP protection in China is important if you are doing or are intending to do business in China. If you don't protect your IP, you will not have any legal rights to wave around in the event that someone copies your product or brand.

The decision to protect in China is no different to making the same decision in other countries. IP laws in China are as good as anywhere else. If you don't protect your IP in China, an opportunist may do so. This may

result in you having to 'win' back your IP rights (if possible), even before you start making or selling your product in China.

How should I protect my IP in China?

Anton: The answer to this depends on your business and the IP you're trying to protect.

Generally, the most effective way to protect your IP in China is to develop a robust IP protection strategy comprising various protection methods.

You should consider combining unregistered rights – such as trade secrets and non-disclosure agreements – with registered IP rights such as patents and trade marks.

How reliable is China's intellectual property system?

Anton: In recent years, we have

seen China develop its IP laws. These developments are ongoing, and should increase foreign companies' confidence in doing business there.

Since 2011, the Chinese government has taken several steps to aid the enforcement of IP rights. These steps include:

- creating campaigns to combat IP violations and counterfeiting
- giving local IP offices guidelines to enhance enforcement inspections at large exhibitions
- adopting a more effective evaluation of law-enforcement performances
- establishing a network of IP enforcement information
- setting up education booths in many major centres to teach the general public about IP.

What should I know about enforcing my IP in China?

Anton: The difficulty in China – being such a large country – is finding those who are infringing your IP.

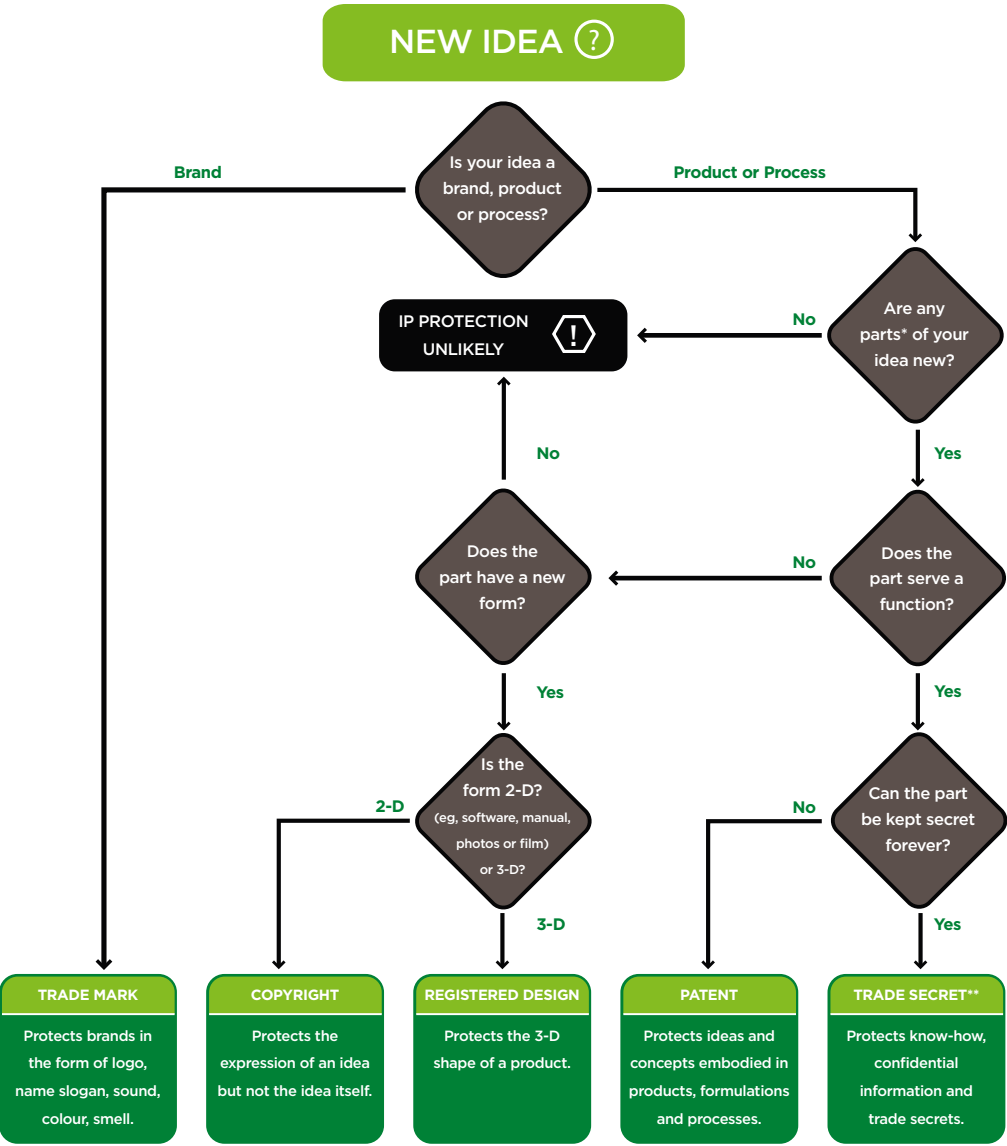
But once they have been found, enforcement can be quick and relatively inexpensive. Sometimes, knockoffs are being made right under your nose.

I've been working with a number of New Zealand companies that have been burnt by their own contract manufacturer who was running night shifts.

The contract manufacturer was making genuine products and selling them out the back door. Having registered IP rights and making regular visits to your contract manufacturer will help keep the situation above board.

For some businesses, it may be realistic to relocate to China, to be at the coal face rather than trying to coordinate things remotely. One of my clients has taken this step and their business has grown exponentially.

AJ Park IP flowchart



* Parts may include: drawings, software, steps in software, text (eg, manuals), photos, film, concept, process or steps in a process, look and feel, database, product functions, product shape, parts shape, purpose of a product or process.

**Trade secrets are very difficult to keep. Other people could independently create or reverse engineer a similar idea to yours and break your trade secret. Protecting your idea with a patent may still be best, particularly if you want to license the technology.

This chart is only a guide. Individual circumstances may result in different or multiple outcomes. Please seek professional advice for a conclusive answer.

Culture and distance. Successful partnerships bridge both.

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Find out more.

- ▶ Contact Paul Gestro, Head of Asia – BNZ Partners at BNZPartnersAsia@bnz.co.nz
- ▶ 0800 273 916 ▶ bnz.co.nz

BNZ Partners

Companies leading the way to Asia

Pure NZ Greenshell Mussels Trading (Shanghai) Co.

Pure NZ Greenshell Mussels is a wholly foreign-owned enterprise established in Shanghai with investment from four top seafood companies in New Zealand: Sanford, Greenshell New Zealand, Kono NZ LP and Sealord Group Limited.

According to Rod MacKenzie, NZTE regional director for Greater China, this market grew by 147 percent last year, from virtually nothing to \$30 million a year.

What makes this all the more remarkable is that this success comes on the back of a previous failure. An earlier attempt to establish this market by various New Zealand companies foundered when they ended up undercutting each other and destroying the premium pricing that made the niche viable.

"It shows what can be done by New Zealanders if we actually work together as opposed to against each other," MacKenzie says. "We are too small for China. Our companies can't compete with the major international competitors over there. We have to work together."

Zuru Toys (zuru.com)

Zuru Toys in China's toy centre of the Guangdong province in China is owned and operated by the Mowbray family, from Cambridge in Waikato.

It was founded by Matt Mowbray, who then got brother and sister Nick and Anna and his cousin Simon Rushbrook on board.

The group all moved to China permanently and are setting about capturing international toy markets and gaining an eight-figure turnover every year.



'It shows what can be done by New Zealanders if we actually work together as opposed to against each other'

Rod MacKenzie, NZTE regional director



Where to get advice on Asia

- ▶ New Zealand Trade and Enterprise: nzte.govt.nz
- ▶ The New Zealand China Trade Association: nzcta.co.nz
- ▶ Asia New Zealand Foundation: asianz.org.nz

NZTE Central, Shanghai, China

Designed here, for the world

Designworks on why a clear design approach has become critical for success on the world stage

The thinking

At the core of Designworks’ thinking is the drive to take New Zealand stories to the world and give them the traction they need to hit the ground running in offshore markets.

This design thinking is also characterised by a meticulous approach to setting strategies, crystallising a brand’s difference in the market and realising its potential. The team at Designworks aims for a mix of strategic logic and creative magic for clients.

Way beyond the traditional confines of branding as packaging or even just marketing, Designworks’ role is to help a client define, design and deliver their unique story into the lives of consumers.

The ability to make design ‘work’ is to redesign how business and brand can go to market. This requires getting inside the business and forging close working partnerships, rather than the traditional ‘arm’s length’ approach – it is a commitment to put design at the core of business planning process.

The ultimate goal is to deliver work that has a transformative effect on a brand experience and business performance.

The doing

Zealong tea – the quality of purity and origin

In 1996, Tzu Chen and his son Vincent imported 1,500 tea seedlings from Taiwan into New Zealand. They were left with only 130 after a rigorous quarantine from New Zealand’s Ministry of Agriculture. But after careful propagation they managed to plant thousands of them, spread over 40 hectares in the Waikato.

Zealong is literally selling tea to China, as well as other Asian and European countries.

Moreover, it is selling a New Zealand perspective on a product with a new, dynamic take.

By amplifying the fresh and inventive side of the New Zealand personality there was license to re-frame how a cultural beverage such as tea could be ‘re-enjoyed’ and different markets could reconnect to it. Through design, Zealong liberates tea from tradition and opens people up to new occasions, flavours and feelings in a way that the New Zealand character is free to do.

zealong.com

Methven – the qualities of a New Zealand design vernacular

Five years ago Methven relaunched its brand, identity and



new product lines. Already a local success, the New Zealand design pioneer was known for its next level technology of the ‘satinjet’ and its synchronised design style, but aimed to truly capture the imagination of international

markets.

Based on user insights, the drive was to create a new way of delivering the true transformative power of shower. Methven wanted to show the world that New Zealand can be a leader in design, creating ingenious shower products that fit everyone’s individual needs, wants – and quirks.

The most recent work is a result of a collaborative exercise to find the sweet spot that revealed the real opportunity to start new shower conversations, making the shower topic more interesting and relevant, and in doing so connecting to more people, new markets and opening up the category.



Methven’s relaunch captured the imagination of international markets.

It’s all about connecting the dots – how form and function actually relate to different people – and showcases New Zealand design-thinking at work.

methven.com

Nature Baby – the qualities of ethics, nature and family

Nature Baby is a local success story. Its essential qualities reflect the idea of a New Zealand lifestyle, its perspectives, priorities and ethics, as well as our connection to environment and family.

Qualities of New Zealandness at its best relating to an authentic experience is something the world naturally buys into.

That Kiwi question

The ‘New Zealand Qualities’ re-set our companies apart and act as a central point of connection and interest for overseas markets. But making it clear and usable is the challenge. The ability to commercialise the core New Zealand qualities through design is finding a universal language that will work market by market. Taking the real value and translating it, while setting up systems to guarantee it remains true to the core, as it grows offshore.



Nature Baby is a local success story.

So with Nature Baby there is a story of ‘goodness’ well told throughout the operation. Hence, the need to be careful not to compromise on ethics, organic nature and what is best for the family, regardless of the market. That’s the heart of their ‘promise’.

The Designworks approach:

- Find it – clearly define and understand the unique quality
- Amplify it – express the difference in the most powerful and universal way
- Codify it – standardise and manage the offer, products and experiences as it grows



IN BRIEF

Designworks is a leading strategic design practice that works with New Zealand brands across all sectors to help them succeed internationally. Designworks recently helped iconic Kiwi brands Monteith’s beer and Silver Fern Farms create complete consumer experiences and weave authentic stories around the origins of their products.

CONTACT

To find out more, contact Jef Wong, head of design, Designworks, jef.wong@designworks.co.nz www.designworks.co.nz

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New School



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And now we're here to help you. We can implement a full Dev/Test environment for your entire enterprise at a price that may surprise you. Experience for yourself just how AWS will transform your business and significantly lower costs. Call us now on 0800 22 58 22 or visit us online to learn more.



Look before you leap

Asia's big enough and old enough to be creating anything its heart desires. So how do you tap into that desire?

The basics of business are the same the world over. To be successful you need to connect what you're offering as closely as possible with what your customers want. The first thing to mention is that these days they have to want you – your business, your attitude and your approach, not just the product or service you provide. Let's face it, the markets in Asia are big enough and clever enough that they could create themselves pretty much whatever specific product or service you can come up. So as the old song lyric goes 't'ain't what you do (it's the way that you do it)'. Noel Blackwell, group head of strategy for Designworks, concurs. "You can't have a lot of ideas without the structure behind it. It's about the people behind it, the culture behind it, how the business is structured and resourced."

Gestro adds: "Any company should do a lot of research on the market, but they often don't really know enough about themselves and what they're trying to achieve. And if there is a mismatch between that and the market dynamics it could end up a failure."

In most cases this means it pays to know a lot about who we are as New

Zealanders, too – or at least how we are seen in these markets. There's been a lot of work done on this of late, with Tourism New Zealand, NZTE and Education New Zealand working on developing an overarching 'New Zealand Story' that is due out any day. This is intended to enhance the ways in which we can leverage off this, both at home and abroad.

Enderwick believes this is good news for New Zealand exports.

"We have Pure New Zealand, clean green and all of that sort of thing, linking food stuffs and particularly dairy to tourism, international education and a safe clean environment," he says. "The problem is that if you start from the position of being '100% Pure' you can only go down, and you're vulnerable to breaches and the increasing evidence that it is not the case."

Whatever you might think about the importance of our clean, green image, to export successfully into the Asian market you're going to need to be armed with something a little more sophisticated and subtle.

Baker says there's increasing recognition to those other dimensions of the New Zealand story.

“Things like our way of doing business and our welcoming attitude are absolutely things that we should be taking into the market that go beyond the story of provenance and place to the way of thinking that drives us in our endeavour to do the things we do,” he says.

It’s worth remembering, too, that concepts such as ‘German engineering’ do not only mean ‘Engineered in Germany’ they reflect a certain way of doing things, which is something we should be looking to create as we operate as New Zealand ambassadors to export markets such as Asia.

Obviously, part of the trick of this is knowing which parts of this ‘Kiwi’ or New Zealand value to carry over into other markets you are targeting. We might not want to turn up to board meetings in China in jandals and a singlet if we want to be taken seriously, for example. One pointer is that many Chinese start from the position that a local brand is better than an overseas one, unless proven otherwise. This goes some way to explaining Fonterra’s strong position in dairy, because local brands have been perceived as unable to provide the quality and safety desired, and the rapid shift into problems when that hard-earned advantage is damaged.

Gourdie explains this by breaking it down into the proposition and the route to market. He argues that a if a proposition works well in one market, then it will have a pretty good chance, at least on an idea level, of resonating elsewhere. But the actual route to market has to carefully reflect the nuances of the export market itself. To put it another way – Asian consumers might like beer just as much as we do, but they might like to buy it, drink it and think about it in ways that are significantly different to us.



‘You can’t have a lot of ideas without the structure behind it. It’s about the people behind it, the culture behind it, how the business is structured and resourced’

Noel Blackwell, Designworks



Inside the GO-ON earphone factory, which produces wireless earphones.

Sniping for beginners

Homing in on your ideal target is better than biting off more than you can chew

Nobody exports to Asia, or even to China, for the simple reason that you can’t do deals with an enormous land mass. We do deals with specific people, who probably live and work in a single city. This goes double for New Zealand businesses, which are so small they could never hope to dominate any sector or market in Asia in its entirety.

However, according to Gourdie, there are still some inexperienced firms that don’t seem to have realised this.

“They are trying to do too much in too many parts of the Asian theatre and not being clear about the seeding strategy,” he says. “Larger companies are more focused on a single target consumer and driving that wedge in before going further.”

He cites the example of Methven, which is going after the high-end hotel and multiple occupancy apartments in Shanghai. It’s all about careful selection of where you are going in.

Gestro has similar advice: Focus on areas where you can see an opportunity.

“They might be in small cities or small regions. You can’t go in and try to conquer the world, or double your business. You might think you have the capacity to do that, but the market will only take what it wants, it may be a small amount or more than you can possibly provide. You possibly can’t scale the business

to match, so at the start you have to think of it as infinite, and that gets you thinking about how you’re going to fund that growth.”

It’s not just about biting off more than you can chew and then chewing like f**k, as 42 Below founder Geoff Ross once advised, but more about avoiding trying to take a bite out of a large moving animal and ending up with a mouth full of broken teeth.

Getting in on the ground

So how do you pick your target? You do a lot of research, get good advice, and then you, or somebody senior in your team, jumps on a plane. “There’s no better way to find out than to go to the market,” Gestro says. “You see and understand the scale of it.”

Gourdie outlines the ideal plan.

“Invest in one of your senior people who has seen your proposition succeed so that they can go into that market and lead the

organisation, that is critical. Don’t outsource that too quickly, no matter how accomplished the people you outsource it to are. A lot of what drives success is belief in the company, so the ideal is to have somebody to organically transfer that into the overseas business in the initial stages. There are many more dimensions to success that can only come from having somebody there with that confidence and understanding of the brand.”

The (flexible) strategic plan

Once you know exactly who you are, where you’re going and who you want to sell to, you can start working up a strategic plan.

This should include your best assessment of the approach to market you’re going to take, the capital and cash flow requirements and the timeline on how long this all may take before it starts to turn a profit, and/or until any planned exit.

This also informs other decisions on where to put your people, how to structure the offshore activities and where to fund the whole thing from in the short, medium and long term.

Then, as you get further into the market, the chances are that you tear up most of this and start again.

This usually means bootstrapping your way around one Asian city after another to gather the intelligence you need for the next step, so dust off your passport.

Lessons learned in Asian exporting

Peter Enderwick, Professor of International Business at the AUT Business School, gets his red pen out to mark Fonterra's Asian export papers

You could say it seems unfair to single out Fonterra for criticism in its recent Asian export problems. The major contamination scandal in 2008 involved a now-defunct Chinese company in which it had a large share, but not overall control, and the most recent botulism scare turned out to be a false alarm caused by incorrect results from AgResearch. The co-operative is also a victim of its own success, in that its size means its failures are widely publicised and assessed on a national and international level.

But looking at our failures is one of the most important ways in which we innovate and the problems in Fonterra's supply chain, along with other recent issues in meat and kiwifruit exports, contain lessons for any company, large or small, looking to do business in the Asian export market.

Peter Enderwick, Professor of International Business at the AUT Business School, points out the challenges posed by business models and styles, differences in culture and history, as well as the difficulties of following complex and changing bureaucratic processes that may also be influenced by diplomacy and

politics. Ultimately, many of these problems come down to one thing. "The key message here is that you must commit the resources," Enderwick says. "Fonterra, the meat industry and Zespri – all the issues seem to be about core governance of what's happening in the overseas markets. It needs closer management. I think the key message is that if you want to go into these markets, it changes the nature of the firm. It's not about just sending stuff to these

'The key message here is that you must commit the resources. Fonterra, the meat industry and Zespri – all the issues seem to be about core governance of what's happening in the overseas markets. It needs closer management'

markets, it's starting from the overseas market and working from that. This is where things are going, and this is where the commitment needs to be made.

"If you look at Fonterra and their Chinese partner Sanlu, Sanlu was clearly not in a position to manage the value chain effectively and Fonterra wasn't able to do

that and ran into problems. And some of the problems Zespri had with false invoicing also seem to illustrate that.

"The number of executives Fonterra had in China managing these relationships was woefully inadequate. You have got to make a commitment to these markets in terms of the number of people, the type of people on the ground and what they do. I think we have a lot to learn from that."

It's also worth remembering

the domestic market.

"There are something like 50,000 public/private conflicts every year on land grabs, corruption and environmental pollution," says Enderwick. "They are very organised to respond to that, probably more so than here."

This illustrates a wider point that is now true of most markets around the world – if your company outsources activities then it is under increasing pressure to take responsibility for those activities.

This pressure is understandably coming from some of the smaller subsidiaries that are unwilling to take on risk on other companies' behalf, but also from the consumers themselves.

"They have to take responsibility right across the value chain and many New Zealand companies have a very narrow view of the value chain. We cut the trees down, send them overseas and that's the end of it. We take milk, turn it into whey and that's the end of it. That's not the case any longer. You couple that with growing consumer awareness and their increasing ability to respond quickly and it highlights the importance of effective crisis management."

Profile – Peter Enderwick

During his academic career, Enderwick has undertaken consultancy work for the United Nations, the American Chamber of Commerce (NZ) and the New Zealand Treasury.

His research interests include globalisation and labour, service sector multinationals, large emerging markets, particularly China and India, and the competitiveness of small, open economies.

He has held visiting positions around the globe, including time at the Helsinki School of Economics and Business, Finland, and the University of Bradford Management Centre, England, where he gained his MA and PhD.

He has taught in Taiwan, Singapore, Malaysia, Hong Kong, Thailand and China and is currently a Visiting Professor at Leeds University in England.

He spent 16 years as Professor of International Management at the University of Waikato before taking up his position as Professor of International Business at the AUT Business School.

He is a member of the Academy of International Business and a founding member of ANZIBA (Australia and New Zealand International Business Academy).

CONTACT

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Making friends and influencing people

Ideas are nothing without the smarts to build the key relationships you need to succeed

There's no way of even starting to do business in Asia without building strong, meaningful and long-lasting partnerships with local people that go way beyond the contractual and legal obligations that also need to be in place. The people there understand the people there, they understand the bureaucracy, the culture and the economy better than you, so you need to make friends with them.

If New Zealand businesses are going to fail in Asia, this is almost always the point at which they do. Why do they fail? Because they completely miss or misunderstand the nature of business relationships in this region.

"You've got to remember this is a culture where people rely on knowing and trusting, through kinship – being from the same village or province," says Enderwick. "If you're an outsider it takes a long time to build a similar relationship."

In China this process and its results has a name: guanxi. It's a complex and almost enigmatic term that takes in many different aspects of human relationships, particularly the intimate intertwining of personal and business connections.

As Tim White, lead partner for KPMG's China Business practice explains, at its most basic level a person's guanxi is his or her network of relationships, but it's also a measure of the depth of those relationships and the extent to which a person is bound or obligated by them.

He warns that many Kiwi businesspeople are used to establishing trust relationships in business by working directly towards the creation of deals, contractual obligations and other legal paperwork. This can mean they become confused by the way in

which, in China, this process remains largely subordinate to the establishment of the guanxi, or personal relationships between the parties.

Foreign businesses that fail in Asia tend to fall into two camps on this. Some are wildly optimistic about how soon this can be developed, and so believe they have forged these relationships when they have not. Others may be cynical about it or unconvinced of its importance and so do not put in the required effort, focus and time to make it happen, relying instead on more familiar contractual arrangements and expensive legal devices which, as we shall see in the next chapter, may not be as secure as you might think.

Gestro advises taking the time, to avoid feeling sorry later. In fact, that commitment in time, resources and personnel is both the practical means by which you will build your connections, and also a powerful signal to those you would like to connect with that you, literally, mean business. You simply can't do that by flying in for a couple of weeks and trying to get some people to sign bits of paper.

It's also easy to forget that this is as much about whether they trust you, as about whether you trust them. It's about 'deep diving' into networks, rather than just collecting business cards of the people you meet on your travels to build your own particular supply chain.

"It's about finding out who your competitors are, who their suppliers are, who your suppliers are, who their competitors are, who else they supply," Gestro says. "The deeper you understand this the more likely you are to have success. Use the people who are living and breathing it day by day. Use local offices of the various support agencies and companies to get as much advice as possible."



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Tim White, lead
partner for KPMG's
China Business practice

The Asian market by numbers

- A 2010 report by The Brookings Institution claims that China's middle class could consume more than America's middle class within a decade.
- The Asian Development Bank says Asia's middle class tripled from 565 million in 1990, to 1.9 billion in 2008. This segment of consumers now represents a market more than six times today's total US population.
- According to Shaun Conroy, NZTE regional director for East Asia, taking in South Korea, Japan, Indonesia, Malaysia, the Philippines, Thailand, Singapore and Vietnam, there are 300 million middle class consumers and there will be 1.5 billion by 2020. In the next 20 years, 1.1 billion people in the region are set to move into the cities.



Dancing with the Dragon

With a population more than 300 times that of New Zealand, China is a highly attractive but frequently mystifying market for Kiwi exporters. Fortunately there are organisations charged with making the leap there a little easier

New Zealand Trade and Enterprise (NZTE) is the New Zealand Government's international business development agency. Employing in-market specialists around the world, its role is to help businesses grow into key international markets.

Rod MacKenzie, NZTE regional manager for Mainland China, Hong Kong and Taiwan, says the region is our fastest growing market over the past five years.

"Exports to China increased by about 27 percent in the past year alone," says MacKenzie. "We're heading towards parity in the value of our exports to and imports from China, which is quite remarkable, and we're well on track to achieving the Government's aim of doubling two-way trade with China by the middle of 2015. It's been a very healthy growth."

For companies looking to get in on the act, their most immediate challenges are language and cultural differences – and this is where NZTE can add enormous value.

"The way the Chinese conduct business, and their philosophy and attitude towards doing business, is completely different

to New Zealand. You need to do it their way or you'll get nowhere."

In much of the Western world, relationships grow out of business. You form a contract, start doing business and gradually develop a relationship with market partners. However, in China, says MacKenzie, you form relationships first and business comes out of that.

relationship to grow – rather than the basis on which business will be done with a customer.

To help Kiwi companies come to grips with these differences, NZTE runs a series of seminars and workshops. Over the past three years, more than 800 individuals have completed its China Business Training courses, which prepare attendees for

'The way the Chinese conduct business, and their philosophy and attitude towards doing business, is completely different to New Zealand. You need to do it their way or you'll get nowhere. Once you get the hang of it, it's not difficult, but it takes a bit of getting used to'

"Once you get the hang of it, it's not difficult, but it's the opposite of how companies typically do business in the UK, the US or Germany, and it takes a bit of getting used to. It also means you don't get quick wins in China. You need to be prepared for things to keep changing."

It's also important to understand that in China, the initial contract is seen as little more than a starting point for the

entering the market, understanding the environment, and grappling with the intricacies of business culture there.

On the NZTE website, there are a host of resources including Navigating China – another useful tool to help companies prepare for entry into China.

Once they have this knowledge, getting on the ground is vital, says MacKenzie, as there's absolutely no substitute for being in China



Rod MacKenzie



Brent Marris from Marisco Vineyards (left) signing a contract with its Chinese distribution company Tianjin Dynasty International Wine Co.



Cheers to family values

Winemaker Brent Marris established Marisco Vineyards in 2003 and is proud to be taking the New Zealand wine story to the world. Marisco sells into 14 countries and exports more than 80 percent of its wine. When it entered China in 2011, the company chose a cautious approach to build brand equity with targeted customers that would provide the best long-term value.

“China is a great market for us due to their desire to learn about New World wines,” says Marris. “The population allows for great growth and even a small slice of this market is a potentially very large volume.”

By partnering with a national distributor, Marisco sought to raise its profile and develop long-term relationships. Marris learnt that when dealing with China, it doesn’t pay to be in a hurry. Commitment to the market and frequent travel there are crucial. And always have your own interpreter, he says.

“Language is a real barrier, but working closely with NZTE has made understanding the culture much easier. They’ve provided excellent in-market advice on the wine sector and on doing business in China and connected us with specialists in their Beachheads programme.”

Travelling there frequently has been crucial to building relationships, and one of the smartest things Marris did was to take his daughters up to meet his distributor.

“That I made the effort to take my family to meet ‘their family’ greatly enhanced our relationship and made doing business easier. It resonated hugely with them,” he says.

Last month Marisco Vineyards gained further kudos with Chinese wine-drinkers, winning New Zealand Wine Producer of the Year at the China Wine and Spirits Awards, along with 12 medals for its individual The Kings Series and The Ned wines.

and dealing with clients in the market.

“We encourage people to actually go to China. You cannot do business with China without being there. You need to see the scale and the way in which people go about business.”

NZTE’s offices throughout China are staffed by both locals and New Zealanders. As part of its Beachheads Programme, the organisation also has 14 Beachhead advisors covering greater China. They’re actively involved with many New Zealand companies and have the knowledge, resources and connections to provide detailed, first-hand advice. NZTE Beachhead advisors also help companies develop networks and put them in touch with like-minded, non-competitive people.

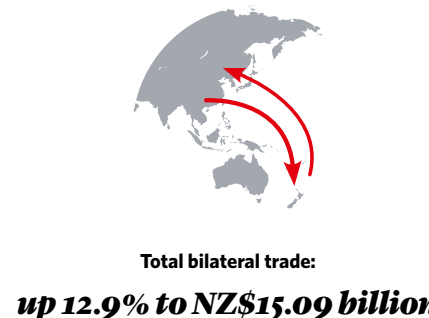
In 2009, NZTE opened New Zealand Central, a custom-designed business-resource and events centre in the heart of Shanghai. It provides office space, meeting and conference rooms and a demonstration kitchen for Kiwi companies entering or operating in China.

Its aim is to help New Zealand companies establish greater brand visibility, stronger connections, and capability to grow business in China.

“Nearly 40,000 Chinese and New Zealand businesspeople have used the centre and it’s hosted roughly 1500 different events,” says MacKenzie. “Virtually every New Zealand company doing business in and around Shanghai uses New Zealand Central.”

Trade with mainland China*

**12 months to year ending June 2013*



Dairy exports:
up 29.8% to NZ\$2.81 billion



Wood exports:
up 36.8% to NZ\$1.5 billion



Meat exports:
up 162.5% to NZ\$745.2 million



Fish & seafood exports:
up 45.8% to NZ\$391 million
(green-shell mussels up 147%)



Wine exports:
up 6.79% to NZ\$26.86 million
(to Hong Kong: up 10% to NZ\$20.41 million)



Protecting your ass(ets)

Don't let the horror stories about dealing with Asian markets put you off – but don't go into it blindfolded, either

We all know some of the horror stories about Asia being the rip-off capital of the world, and some of them are true. But if you don't want to let that frighten you away from some of the most lucrative markets in the world, you need to look a bit deeper to understand how you can avoid the worst – because most of the problems relate to misunderstandings of one form or another.

White cites a classic example of when a client software company believed they were on the verge of securing a large Chinese software deal. The Chinese firm had repeatedly asked him to return with further details on how his software could work for them. But when White and a Chinese KPMG colleague joined the next meeting the company thanked White's client sincerely for his help, took everybody out to dinner and enthusiastically explained how they had now handed all the information on to their own team of



'We have been seeing quite a lot of trade marks getting hijacked by opportunists in China who see trade marks overseas and then file them in their name'

Anton Blijlevens, AJ Park

software developers to create something similar. Other problems arise from a key difference in law, so it is worth getting the right legal heads on board your export train, as AJ Park's patents partner Anton Blijlevens explains.

"In the US, UK and New Zealand we have Common Law rights for trade marks, which gives the person who first uses the trade mark some rights. If somebody else tries to register it they will have difficulty. But in China and other parts of Asia there is no common law system and no prior use rights. The person who is first to file has the rights.

"So we have been seeing quite a lot of trade marks getting hijacked by opportunists in China who see trade marks overseas and then file them in their name. When the original trade mark owner comes into the Chinese market they are infringing that Chinese person's trade mark, despite the fact that they may have been using it overseas for a number of years."

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He also notes that a search of the Chinese trade marks database reveals a surprising number of trade marks registered to Chinese firms with no obvious New Zealand connections with the name ‘Kiwi’ or ‘New Zealand’ in them, presumably to take advantage of the legal loophole in a form of trade mark squatting.

Beyond that, even the companies you end up with business relationships with could also be ripping you off.

“It is not uncommon for contract manufacturers in China to be running night shifts and selling your product out the back door,” says Blijlevens. “Also, what they are doing if you do not have the right contracts in place is just scraping your IP – saying yes, we will manufacture this product for a few years. But in the meantime they are learning a lot about

your technology and are improving it and filing patents for the improvements in their own name.

“That can be a problem for the original IP owner. They original owner is precluded from making an improved version because their manufacturer owns the patent to the improvements. It’s a clever way for manufacturers to keep you as a client for longer than a few years.”

You could argue that some of this simply illustrates that China is now geared up to beat most of the rest of the world to the punch when it comes to new product manufacturing. Both Blijlevens and Baker have encountered technology divisions capable of replicating electronics technology for mobile devices and having it ready for market within 48 hours. If you aren’t careful about how you negotiate, this

could mean that your new idea is pulled apart and stolen, or made by somebody else before you get on the plane for home.

Enderwick brings his own horror story into the mix, illustrating that the issues are not limited to IP ownership problems.

“They work on very thin margins, so there are all sorts of incentives to cut costs and occasionally cut corners. They don’t necessarily see that as immoral, or breaking contractual agreements, they just see that as a way of doing business.”

He cites the toy industry in China’s Guangdong province, where, for example, last March an investigation by China Central Television found that large quantities of low-quality toys were being manufactured in Chenghai with recycled plastics that included improperly treated medical waste such as syringes. At the processing workshops, plastic materials and used medical devices were simply being smashed, rinsed and dried, and then sold to toy producers.

The good news is that things are changing. With Hong Kong and Singapore leading the way by adopting world standard IP laws and enforcement. China also spruced up its own IP law and enforcement after 2001, when the

‘It is not uncommon for contract manufacturers in China to be running night shifts and selling your product out the back door’

country joined the World Trade Organisation.

But Blijlevens has a warning.

“To make it work you have to have some intellectual property protection. Even in countries that have poor IP laws, if you have IP then at least you have a stick to wave around. If you don’t, you’ve got nothing. If you don’t choose to wave it around, that’s up to you, but at least you have the option.”

AJ Park does the initial protection for its clients from here, but Blijlevens also visits the Chinese IP firms he works with regularly to keep up with the frequent law changes in-country and recommends that business owners do the same.

“It’s not just for product quality control but for IP



control,” he says. “But also to keep the contract manufacturers up there honest.”

If things do go wrong in China, catching the culprits can be the biggest problem, but once you have enforcement it’s relatively straightforward and cheap. In other areas of Asia, even enforcement can be difficult, with corruption often thwarting the march to justice in places such as Indonesia.

Of course, by the time enforcement has happened a lot of ideas can be out of the bag, so the best way to stay ahead is, as always, to stay ahead. Stick to your proposition, build great partnerships, keep innovating, keep it authentic and about you, because that can’t be counterfeited.



‘To make it work, you have to have some intellectual property protection. Then at least you have a stick to wave around. If you don’t, you’ve got nothing’

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Go hard or go home

The Asian market is both vast, and fast. You might think you are flavour of the month, but this can change in a minute. Consumers in the Asian market are as fickle, connected and scrutinising as anywhere else in the world, perhaps even more so.

“You need to understand the market backwards,” Gestro says. “You might look as though you are growing and increasing your market share, but you can be upended quite quickly.”

The solution is to fast iterate your ideas in to the market and constantly test and retest your company’s proposition, while holding strong on your quality and authenticity. All that requires resources and people with passion to carry it out.

More than ever, it now also requires brand building that goes beyond the old fashioned channels of TV, radio and point-of-sale. This is now being replaced by the high-speed, highly interactive marketing approach that has social media at its heart.

Baker describes how this requires a more “complex choreography” in marketing, while Blackwell points to the fact that there is now nowhere to hide in terms of your brand offering and how well you deliver on it.

“The customers are the brand holders, not the company,” Baker says. “They are the ones who will define your reputation, in real time, on social media.”

The speed at which this is developing in Asia is something that can only be fully understood by going there and immersing yourself in it. It’s not just about a social media strategy, it’s about gearing the entire company so that it can operate well in the social media age, getting its message across fluently in all of the new media and channels and understanding how this technology is transforming the entire buying experience.

“You have to absorb, assimilate, adapt and react very quickly to bring that back into your business,” Gourdie says. “That is what creates the fast iterative process that is required.”

The white stuff

From enfant terrible of the dairy industry to one of its major players, Synlait has used its partnership with Chinese giant Bright Dairy to stake a claim in our lucrative export market

When it comes to dairy, Synlait has always been ahead of the pack. From purchasing and developing a 3,000-head dairy farm in Canterbury in 2000 (it's still the largest supplying farm in the country), to breaking away from Fonterra in 2005, the company has always had a clear end game in sight.

Specialising in state-of-the-art farming and milk processing, Synlait has managed to throw conventional wisdom to the wind when it comes to dairy farming in New Zealand. Moving out from the shadows of Fonterra may have been risky at the time, but it was a move that paid off. The company posted \$11.5m profit for the year to July 2013. It listed in July, with shares peaking at \$3.42 (they were issued at \$2.20). And it is forecasting a profit of nearly \$20 million for 2014 and aims to produce 10,000 tonnes of infant formula in the same year.

A recent partnership with Chinese food giant Bright Dairy is one of the secrets to Synlait's success. Managing director and chief executive John Penno explains that the relationship was all about being in the right place at the right time.

"We had set up our milk processing plant in 2007, but the

global financial crisis struck soon after," he says. "We wanted to raise credit capital to continue our investment program allowing a move into manufacturing infant formula, and we were looking for an international trade partner."

Enter Bright Dairy. The Chinese company had been looking to invest in a New Zealand dairy company, which aligned fully with Synlait's plans. But a misplaced piece of paper meant the initial meeting was slower than it could have been.

"The proposal we sent sat on the wrong person's desk for a few

'The team at BNZ picks sectors they'd like to engage with and they go to great lengths to understand how these sectors work'

months," says Penno.

Once they were aware of the Synlait proposal, however, Bright Dairy was keen to come on board. An \$82 million investment in 2010 secured them a 51 percent share of the company, and a say in most key decisions. But there was also an understanding that Synlait would undertake an IPO in the near future and Bright Dairy's shares would be diluted.

"When the company was IPOed in July, Bright Dairy's shares went

to 39 percent," says Penno. "This had been envisaged and captured in the initial shareholder agreement, and has worked out really well for everyone."

Penno is pragmatic about the risks involved in dealing with an offshore partner. He says that Synlait mitigates risk by having people and systems in place that are the best equipped to handle localised risk – be it in China or New Zealand.

"We choose only to partner with people who understand the risks that may arise in their own countries and are happy to take

responsibility for these."

When it came to negotiating the agreement with Bright Dairy, Synlait was clear that it wanted it to be carried out in New Zealand. The agreement was in English, Bright Dairy representatives came to New Zealand to sign it and New Zealand lawyers were used.

"It was important to us that the agreement adhered to New Zealand laws," says Penno.

However, the Synlait management team has spent a fair

amount of time in China, with the board travelling there at least once a year. Penno says this is an important aspect of their business dealings with the Chinese company, as it enables them to better understand the culture and business thinking of their partners.

Penno feels that it isn't useful to think of China as a homogenous whole.

"When people ask me for advice developing business relationships in China, I say 'there is no such thing'. China has 20 percent of the world's population and there are so many different cultures within this population. Everyone will have a different experience of the country."

He says that it is more important to understand the unique market you're selling to and the culture within the company you deal with.

While a good relationship with partners has been a key to Synlait's success, so too has its relationship with BNZ.

Anthony Saunders is a client director in institutional banking at BNZ. He says the bank became involved with Synlait when they helped refinance the company in conjunction with Bright Dairy's involvement, following the tough years relating to the GFC.

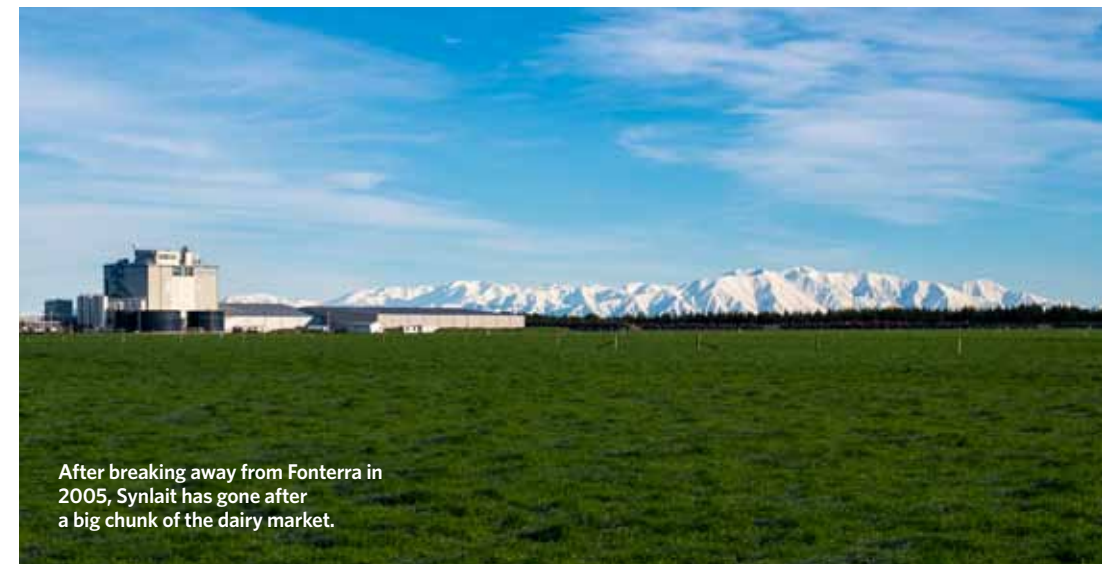
"In conjunction with its incumbent bank, Synlait approached us and we immediately saw that they had the vision and drive to succeed."

Saunders says that Penno has always thought ahead, with new projects constantly on the go. This drive for success and the 'next opportunity' is not just quantifiable in monetary terms and is part of the reason that Synlait has attracted global dairy industry participants from China, Japan and Europe as shareholders.

"We recently hosted Synlait at the New Zealand/China Trade Association Awards in May. They deservedly took out the supreme award on the night."

Penno agrees that the relationship with BNZ has been very beneficial. He says BNZ and its other bank put together a banking deal to support them through the IPO, helped with debt redistribution and met with Bright Dairy to help understand the business more fully.

"BNZ pick sectors they would like to engage with and go to great lengths to understand how these sectors work. They didn't have to hit the ground running and learn about our industry because they started from a place of understanding."



After breaking away from Fonterra in 2005, Synlait has gone after a big chunk of the dairy market.



IN BRIEF

A strong international business partnership, such as that between Synlait and Bright Dairy, can make a successful local company an international force to be reckoned with.

CONTACT

To find out how we could help your business growth in Asia, contact Paul Gestro, Head of Asia – BNZ Partners at BNZPartnersAsia@bnz.co.nz, or phone 0800 273 916.

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Playing with the big guns

Don't let opportunity pass you by! Grab it with both hands

Asia is a massive opportunity for New Zealand businesses, but it won't wait forever. In fact, it isn't waiting at all.

According to Charles Neumeyer, partner of Asia Law in the US in 2012, China's State Intellectual Property Office (SIPO) granted more patents than any other patent office in the world, including the US Patent and Trademark Office (USPTO). Those 1.26 million Chinese patents represented a 31 percent increase over the number granted the year before, and China's government has set a goal of granting two million patents per year by 2015.

Asia is not just building, it's innovating, and we must innovate if we want to compete. Thirty years ago short-sighted people were dismissing Japanese production that now leads the world as 'Jap crap'. The same process is now roaring along in the rest of Asia.

So time is not necessarily on our side, even though it is the vital thing we need. Yes, you can grow quickly in these markets, but most of those who succeed take decades to do so. No amount of



No amount of 'she'll be right' is going to make it happen on its own, although the flexibility that the Kiwi attitude has always embodied may help us along the way

'she'll be right' is going to make that happen on its own, although the flexibility that the Kiwi attitude has always embodied may help us along the way.

Enderwick foresees that there will come a time when markets such as China and India are so strong in their domestic markets that it will be quite difficult for other businesses to get into, unless they have a niche product. If we are going to get a good foothold before the doors close, we need to combine discipline and passion and bring a fully mature offering to this market as soon as we can.

And here's Gourdie's take: "In the startup world our relative borderlessness creates an idea-generating capacity which, given our size, is exceptional. But where some of those companies start to have problems is where they meet sophisticated marketing and distribution systems, where you need the experience and capability. A lot of New Zealand companies hit the wall, and you can't bullshit your way through it: you have got to be on your game."

– ANDY KENWORTHY IS A REGULAR IDEALOG CONTRIBUTOR AND AUTHOR OF THIS GUIDE (AND MANY OTHER THINGS).

www.andykenworthy.com