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S1 00:11 Hello and welcome to another episode of the Moxie podcast. This is episode 23 recorded on the 19th of January, 2015. And a special thanks to Alcatel Lucent and its ng Connect program whose sponsorship helps to make this podcast possible. This is the companion web shown to the Moxie Sessions, an internet economic discussion group held once a month in Auckland, New Zealand.

S1 00:36 Our aim is to bring together a group of interesting people from across the New Zealand economy to talk about how New Zealand can take advantage of the internet to improve its social and economic performance. I'm Andrew Patterson with you here in Auckland. I'll introduce our guest panel shortly but firstly, let me outline our topic for this session.

S1 00:54 China is currently the world's second biggest economy and recently became New Zealand's biggest trading partner, worth around eight billion dollars annually in export receipts.

S1 01:06 Knowing your customer is key to success in business, so the question is, do we really understand Chinese customers? China also has a super advanced internet economy as we've seen with the recent float of the e-commerce website - Alibaba, so in principal, there should be big opportunities for New Zealand tech firms based on the vast scale of the Chinese economy.

S1 01:28 However, doing business in China - as is well known - does have its challenges, so growing firms might not want to make it their first market but ultimately, it's a market they can no longer ignore. And in this the growing market for Chinese students who come here to study. Should we be doing more to better integrate them into New Zealand businesses in order to improve our chances in the Chinese market?

S1 01:51 Of course underlying all this, our public attitudes towards Chinese migrants have often bubbled to the surface in public forums. With me on our panel today to discuss all of this, I'm joined by Mike Anand who is a business development adviser on China at New Zealand Trading Enterprise and a Former Trade Commissioner to Shanghai.

S1 02:12 And David Robb, who's professor of operations in supply chain management in the graduate school of management at the University of Auckland Business School and previously spent seven years as an academic in China. Welcome to you both.

S2 02:24 Thank you.

S3 02:25 Hello.

S1 02:25 Mike Anand, perhaps you could start us off-- begin briefly by outlining for us the extent and breadth about trading relationships with China. Because I wonder if people simply think about in terms of dairy exports.

- S2 02:42 Sure. And dairy is always a big part of the export story, but what we've seen in the last seven or eight years, in particular since the introduction of the free trade agreement, is a broadening of the export base from New Zealand. So as you said, China has grown in exports-- in fact it's grown to about 10 billion in exports and a fairly similar amount of imports, so we hope that goal that Prime Minister John Key agreed with the previous Premier to get to 20 billion dollars in trade. Our dairy industry is at around five billion of that and what we're seeing more and more, particularly in the food and beverage space, is companies starting to look at, "How do we actually develop into other products that might be suitable than China products, to take advantage of the changes in the Chinese Market." And that changes around the growing middle class, which is creating demand for products that weren't previously there. Changes in the urbanization of China where we see more and more people now living in cities, so again changing the demand or products.
- S2 03:49 And what we see there is-- as you mentioned, not only the internet but also a growing number of supermarkets which are moving up the chain in terms of offering high value product. And that's where companies are starting to look at that and starting to pick up some of the opportunities.
- S1 04:04 So how would you characterize our trading relationship? Because while it's significant for us, I mentioned it's particularly significant for China.
- S2 04:12 I think there's a really important point, Andrew, that we have remember that when we look at it, China is now our biggest trading partner. When China looks at it, we're a very, very small trading partner. But in saying that, all the rhetorical there, the feedback we get from the Chinese officials is they value highly the trading relationship that New Zealand has with China. And I think that's exemplified through some of the winds we've had a long the way. The first developed nation to have a comprehensive free trading agreement is something the Chinese mention on a regular basis. So it's not just something we pat ourselves on the back for, but the Chinese are also very proud of that and bring that up very often.
- S1 04:55 I also had one professional point out to me recently - which was an intriguing point I hadn't heard before - but they talked about the fact that the Chinese like dealing with New Zealand because of our very low level of corruption and that we are a clean country to do business with.
- S2 05:12 I think that's a big factor for them. We're very easy to deal with and I suppose it's not just in China, but around the world, I think we're seen as relatively easy to deal with - we're very upfront, very honest. I think we look at relationships quite often in a very fair way - not all the time, but we also look at what's not just the benefit for us as the trader but also what's the benefit for the person buying the product in the country. And the Chinese do seem to value that quite highly.
- S1 05:38 As I mentioned and you've alerted to, we do tend to think of our trade with China in terms of hard and soft commodities, logs and milk powder, but how well are doing in the services sector that you've mentioned and potentially, are there more opportunities emerging in this area that we really aren't taking advantage of enough?
- S2 06:00 I'm seeing-- or I was seeing, at least when I was up there in China, an increase in service companies coming into the market. Companies are starting to look at-- I suppose Chinese life styles, Chinese demographics, and saying, actually, there is an opportunity, not just as you say dairy, but in other products or other services. And there are couple there in fitness type equipment and fitness regimes that are moving

into the market. Certainly around health care where companies are really taking China seriously now and I think are starting to make in-roads but obviously with any market like this, it's fast changing, that's growing at such rapid pace, it's not the sort of market where those companies are able to just walk in from day one and have success. So it does take some time but I think we're starting to see some success happening.

- S1 06:45 David Robb, if I can bring you in here. I know this is an area where you also believe there are plenty of opportunities for New Zealand businesses to consider. Where specifically do you believe we should be focusing in the services sector?
- S3 06:57 Like, building on what Mike said, the health care, the elder care market. There's about four private hospitals opening in China everyday now. Entertainment and Media is about three movie complexes opening everyday. One shopping centre. So companies that have done particularly well from New Zealand like Natural History New Zealand [Investor?] Group who have production to the [sun?] that [4A?] needs to continue.
- S3 07:20 Also building on the agriculture side of things is consulting opportunities, and agri-tech, and aviation and so on. And also, he said earlier about education. There's a lot of opportunity there. Stephen Joyce is encouraging more provision of education in in-country market. We're seeing a lot of Chinese students here now, and I think that will include moving in the other areas of exchanges and internships. A lot of US Business Schools, for example, are now offering internships in China and that's something we need to build on. Along that line, I'd like to highly encourage anyone to think about these programs that top universities in China are offering in English included. There's a Swordsman Scholar Programme at Shanghai that's had three hundred million dollars invested in it. They're taking 10,000 students over the next 50 years and Beijing University has the intern academy which is just starting as well. So there's a lot of opportunities for New Zealanders to work in China, to study in China, to get to know the market better.
- S3 08:23 And you mentioned earlier about the consumer. The best way to learn about the consumer is in-country.
- S1 08:30 Absolutely. I'm aware of one American University that's established in Shanghai that have 50% of their students Chinese and 50% are international so that you get a very-- a really effective cross pollination of students, which I think is a very clever idea.
- S3 08:48 Yeah. That's how those two programs that Shanghai and Beijing University are operating as well.
- S1 08:53 I'll come back to more on the education sector shortly, but we know that doing business in China does come with it's own set of challenges and risks. How should businesses consider mitigating some of these risks and what should be their approach?
- S2 09:11 Do you want me to kick that off David?
- S1 09:11 Yeah.
- S3 09:12 Sure.
- S2 09:14 I think from my observations there in the last few years and living in Shanghai, the four key factors for companies to be successful; I think number one is - companies have to be prepared. It means doing possibly a little more homework - well a lot more homework than you might in some other markets. I think it means having a strategy

that is a little more robust than you would have in other markets but at the same time as adaptable. Again I'll just stress that point - it's a growing and changing market, so I think you need to have a strategy that can adapt to that. I think it means doing more homework and knowing what will be required and understanding the time and cost in resource required.

S2 09:54

Number two factor to me is having to persevere. I've seen a lot of companies up there-- I don't think I've seen any that have gone straight on a path of success. At some stage in the journey, I think each company will have some sort of barrier or something came up that makes it a little distort. And I think it's important to almost plan for that and be ready to pick yourself up and move on.

S2 10:18

Third factor for me is - be present. I think it's very critical to have people in the market. It's very hard to crack China when you're sitting in your office in Auckland, Christchurch, or some other location in New Zealand. And the fourth factor, I think, is really being very diligent about picking the right partners. And I'm not just talking about trading partners, partners who can buy your products or buy your service, but making sure you have the appropriate level of support through accountants or property people or legal people or whatever it is you need for your business. I think that the fourth point about having partners is very critical

S1 10:59

David I know also in your notes on the session you made a point about needing to have a passion for China, the wanting to see China do well. Do you want to just expand a bit on that?

S3 11:11

To add to Mike's comments, [silly?] attitude is really important. And wanting China to flourish is a motive and all of us have in New Zealand and I think that it's absolutely needed to get into the market. Get our motives right, be on just the financials and the short term. I think on our side we need to minimize any likelihood that we're rogue operators, tarnish our image there. Attitude I think I think also deals with the issue of humility if you think of recent comments out of Fonterra and [?], these companies are both taking that kind of attitude to the market now and not resting on our laurels.

S3 11:49

Second thing I think would be what we do here to establish brand New Zealand especially in the food sector with authentication and security and so on. And also to get better at what we do here. There's nothing better than a Chinese customer looking at what a New Zealander buys and what a New Zealander wants to buy that's a big signal to Chinese consumers about what's low class as in the food in beverage.

S3 12:13

The third point I'd make is about learning more, not just about China but from China. Say this for example the Chinese economy even on the internet is based around Yahoo and Groupon and other firms. Even Google hasn't done all that well. Ebay and Expedia. All of these are so because they haven't known the market very well. These certain industries and sectors in the Chinese economy where we can learn that. And [?] amount from technology on e-commerce side and I mentioned Alibaba earlier but other firms like [?] and Light-in-the-box. Actually knowing what they do, how they set up, how they're related to social media and so on. And search engines.

S3 13:00

Another part of learning about China is the way many firms are doing really well with their business models. We're going to hear a lot more in the future about companies like [?] and their offering and their tax base. [?] which we know well in New Zealand from it's acquisition of [Fish and Piaco?] is doing well and actually not just selling products but it's distribution into the interior of China where New Zealand companies I think need to start looking at from a market point of view.

- S3 13:28 So yeah, I think we can learn really a lot from China. We have to do that with our eyes and ears open and having people in the market, as Mike said.
- S1 13:39 That's a good point isn't it because know that the traditional American-- the American Business Case Model teaching approach is based in American companies generally so, how long will it be before undergraduates and graduates can actually get a chance to look at the success of China's business models?
- S3 14:05 That case has been [?] now and Chinese companies and a lot of the top Chinese universities have case sent us now where they provide in English and Chinese cases on firms there. But you're right, most of the cases written on Chinese companies have been done on multi-national [operating?] there. There's a huge need now with China in business schools to develop cases, not just of smaller Chinese companies bit ones that are expanding abroad. That's the big story now. When I first went to China twenty years ago, everyone wanted to know about doing business in China and how foreign companies could do that and then now it's completely reversed. Chinese and foreigners alike want to know how Chinese companies are doing business abroad. So the brand names that are now beginning to be top of mouth for some partners around [?] and [?] and Alibaba and the Big Bangs three them now operating in New Zealand. And that's only the start of many much more Chinese investment coming abroad.
- S3 15:05 From a purely selfish point of view, New Zealand companies need to stop considering how to compete in their own market with Chinese firms and what way to do that than to get to know Chinese firms better?
- S1 15:16 Absolutely. And also I noticed as a supply chain specialist there is good security in place which raises this issue of collective responsibility. All exporters in the sector are effectively having to rely on other in the sector to maintain their integrity. What implications does that have, both now and in the future particularly in regard to issue such as traceability?
- S2 15:42 Part of the problem is we tend to deal with this by company to company or just company to company and not within the supply chain and we're not considering the whole supply chain when we're discussing things like supply chain, authenticity and integrity. We look at process control and quality control. And very much in the individual organization level. So if we could come up with a brand where we have very high level of security, quality and everyone within that brand subscribed that particular model, that would be helpful. Everyone wants to know what pass their product trace from the individual ingredient all the way to what ends up on the consumer's shelf at home. We're fighting this on all kinds of fronts at the moment because there's a lot of fake product around and lots of people want to deal with that particular brand, so...
- S2 16:35 I know [?] process don't quite [?] spaces well.
- S1 16:39 Mike do you want to jump in there?
- S2 16:41 We've done a lot of work on what we call the Brand New Zealand, where we've tried to provide a lot more collateral to the firms daily-- not just in China but around the world so they can use and tell the New Zealand story in a consistent way. That's providing verbal, it's providing video, it's providing photos that companies can use. I certainly find that in China where companies would come in and very quickly jump to talking about their particular product or brand, and the Chinese, in many cases didn't

really get-- the top level, they didn't understand New Zealand as a country and then quite often didn't even understand the category that was trying to be sold to them. And I think if we can more around building the overall story, then the individual companies are going to benefit much more. So that's what we've been trying to work on - the development of the brand, New Zealand story.

S1 17:33

And just picking up on David's earlier point, this issue about given the fact that China is now our largest export market, how well do you believe that we really know and understand our biggest market and are you seeing a change in approach from businesses really trying to spend more in terms of understanding their customer?

S2 17:55

I think we're building the understanding a lot better. If I look to when I first moved to China, some three and a bit years ago, there were still many companies, I think, who were looking at China in terms of, "Well, we've cracked Australia or another market" and coming in with a very similar approach. Towards the end of the last three years I was there, I find there a lot more companies going, "This is quite different to what we've had before." And where we've talked about putting people on the ground, having resource on the ground. There has been a substantial increase in firms who are now putting their own people or employing people in China and starting to get a much better understanding by having people in the market. So I think there's been quite a dramatic shift in the last few years

S1 18:39

I'm interested, from both of you, your perspective on this question - are we doing enough to tap into the Chinese diaspora within this country. Is there something that perhaps needs more work. Perhaps David, if you would like to kick off on that one.

S3 18:57

Definitely more work. The local graduates have-- from our country I think from China have totalled-- must be lose to half a million now. Most of them are back in China and just ripe for New Zealand companies operating there or wanting to know more about the market because they have obvious knowledge about New Zealand and education. But the ones who are graduating from our programs here are still having difficulty finding work because there's obviously language issues and so on. I think there has to be some additional work done there around placing students here into New Zealand companies considering operating in China or operating there now.

S1 19:34

The interesting point in that is where should that responsibility lie? Because the university's course can argue, well our job is simply to educate them, not necessarily to be the integrator. Who picks on that do you think?

S3 19:48

It's a joint responsibility. I think universities need to do more around internships, promoting these students and trying to overcome some of the barriers but I've met quite a few New Zealand companies who are just coming around to this idea. Typically it's the larger ones who are already engaged in the market. It's a very interesting question to look at. This one around over ten graduates and the one I know from talking several times together with David that we share this-- that we should be using somehow-- and this pool of graduates have come here and the ones I've met in China who have returned to China, they're all fantastic ambassadors. They have a very good understand of New Zealand, they've got a real passion for New Zealand and they really seem to want to do something to help New Zealand as well. In terms of responsibility, I think we need to look at that a little more. I know KIA have tried to do a few things where they try to pick up the graduate piece and as David said, the universities also do various functions, et cetera, but that does tend to be on

a more individualized basis. They are an incredible resource that I think we're probably not using as well as we should.

- S1 20:57 Absolutely. But that also comes back to this issue of networking doesn't it? And New Zealanders aren't necessarily always good at the idea of how you use a network to drive our outcomes. Do you think there's some learning and educations that also need to be considered within the broader business framework as well, too?
- S3 21:16 I think part of it, in terms of responsibility, is also upon New Zealanders to have local students from abroad in their homes getting to know them. If you look at our students here, they often just stick to themselves. There's joint responsibility here with students, with local New Zealand domestic market and companies and the universities and the likes of KIA and NZT. So it's a joint thing but maybe we need to be organizing something around that.
- S1 21:42 Let's talk about e-commerce, because you've both mentioned this in your responses to this point. Obviously explosive growth in e-commerce in China and obviously this is an area where China is probably well ahead of us here in New Zealand. What opportunities do you believe this presents for New Zealand? David Robb.
- S3 22:04 Firstly is to join this marketplaces and start off our own products. And I know New Zealand firms doing that as well, New Zealand Posters and [?] at the moment but there are also Chinese companies doing the exact opposite here. Like operating and selling Chinese products into the New Zealand market. Understanding that works-- as an example [Audi?] and [Mazda?] [?] sold 600 thousand litres of UHT milk in less than an hour. It went on to the Guinness Book of Records and over a hundred thousand of those litres were from New Zealand. New Zealand products are highly regarded in the Chinese market. So how do you get your product there. That's a big question. What port of entry do you have, do you let New Zealand agents do it, do you hire a Chinese company to handle it all and those are some of the things that Mike mentioned earlier.
- S3 22:57 I think one of the big problems-- especially the e-commerce, we just think you put one product in and it goes every where. There are many markets in China who are sitting at homogeneous. I think that's the biggest mistake most Chinese make when they enter. So you have to understand how does markets work. So even within e-commerce, you have different product offering that the North of China to the South of China. Different kind of beers, different pallets. So New Zealand companies have to understand does different nuances of the market. And we have to keep to in touch of what's happening. Certainly the luxury-good market is coming from quite a battering in recent years, so the anti-corruption moves. So even New Zealand products are typically at that level, need to think about what happens to the market when those-- when it falls out, when the total volume changes.
- S3 23:50 [crosstalk] too the [?] in China is of course fantastic and every day there's different bits of information that come out of it. I've just got another email in my inbox this morning which talked about the fact that it's now 6.5 trillion market that's accounting for something like almost 11% of the total retail trade. So the numbers are absolutely compelling. And we've been involved with [?] and a few other of the e-commerce platforms and traders up there. [?] were did a very successful live seafood promotion earlier last year and more recently November on singles day which is the single biggest trading day on e-commerce any where in the world. We got involved there and helped a few New Zealand get online and they were very successful.

- S3 24:36 I think what we've learned about is there's obvious opportunities there but as with anything in China, there's also huge challenges. And these numbers, they're no secret. Everyone else around the world knows them as well and so it's not like you can just go out there and put your products online and you're going to have overnight success and I think it's really important to remember that as much as it's a great platform-- and e-commerce is a great platform that like anywhere else whether it's retail, bricks or multi, the fundamentals need to be right. You still need the right products, you need the right price and the products need to be promoted so that people are going to come to the site where your products are. I think it's really important to stress, yes it's a great opportunity but it's not an instant success either.
- S1 25:18 So Mike when we think of the issue around New Zealand being a relatively small producer in terms of quantity, is it better that these sorts of initiatives are tactical driven by NZ[T and E?] and so forth rather than smaller individual companies trying to think that they can make an impact. Or should they be.
- S2 25:40 I know I'd be bold enough to say it's better but we have seen some good success where we have been able to group some companies together and work on the New Zealand Brand. And particularly in that Food and Beverage space where we're starting to get some recognition and food and beverage as a clean and safe provider of good value products.
- S1 26:01 In the remaining part of the program and just before we start something up a little bit, I just want to touch briefly on this issue of quality in China. Because this is another really important consideration. Perhaps David Robb, your thoughts on the importance of quality specifically?
- S3 26:19 Once again, start with food quality. I think in the minds of every Chinese consumer and government official. And there are certain concerns there and the general view is that foreign products have better quality. But I think in terms of their testing and so on, they seem pretty robust at this point and not just within China but from the source, so we as New Zealand or anyone else. And of course there's opportunities for us here in New Zealand and part of quality is the freshness and that's possibly one of the biggest characteristics of the Chinese consumer market. The desire for freshness. And as an indication as I mentioned-- I know you're quite interested in IT and [?] prospect of saying where products come from and that's an aspect of quality and there have been firms that are working on that and that's Ice Breaker and Air Bourne have done some but I don't think anyone's absolutely cracked that absolute traceability in quality.
- S1 27:17 Finally in the time we have left, let's consider some specific strategies or action points that you believe that we should be focusing on as a matter of priority. Mike would you like to kick off? A couple of action points that maybe from NZT and E's perspective that you think we should be considering at this point.
- S2 27:35 Sure. If I just go back to recap, at the end of day, China by any of the numbers you look at shows that there's huge opportunity and I think many of the companies that have been dealing there would attest to it also as a country of huge challenges for various reasons. So with that in mind, I go back to the point I was before where it's very important that you're present there - you have to be in the market in some way, shape or form. I think you have to be much more prepared than you would be in some of the other markets that you're used to dealing in, you have to be ready to persevere and deal with the barriers and challenges that come up. And finally I think

it's really important to be very diligent about picking the appropriate partners, not just trading partners but supporting partners and service partners that you need in the market as well.

S1 28:24

Absolutely. And David Robb, your thoughts.

S3 28:28

I think we need to invest in soft side, the services sector and encourage more New Zealand firms to work in consulting and software. Obviously building on our capabilities in agri-tech, health care but my biggest interest is to try and encourage New Zealanders to learn more from China and about China which means getting people in the market, in educational institutions, building capital - social capital - that we can subsequently use to get over the inevitable challenges and risks and difficulties that will come up in various sectors including product quality and service quality and politics, and so on.

S1 29:07

Indeed. We're out of time so we'll have to leave it there unfortunately. My thanks to Mike Anand from NZTE and professor David Robb from the University of Auckland Graduate School of Business. And if our audience would like to connect with you both, David what's the best way.

S3 29:21

I'm on LinkedIn and also you can email me at d.robb@auckland.ac.nz.

S1 29:27

And Mike?

S2 29:29

The easiest for me would also LinkedIn. I'm pretty easy to find there.

S1 29:32

Thanks again to you both for a very engaging discussion. Finally thanks to our sponsor - Alcatel Lucent and its ng Connect program for their support of this podcast series. I'm Andrew Patterson, we hope you enjoyed this Moxie podcast. I hope you join us again in the future.