



# TAKING NEW ZEALAND TO THE WORLD

## WHY EXPORTING MATTERS

A LOOK AT WHAT EXPORTING MEANS TO NEW ZEALANDERS

BusinessNZ 





*Taking NZ to the World – Why Exporting Matters* is a companion document for *Thinking Globally. NZ in the Economic World* and is a resource for the social sciences learning area of the New Zealand Curriculum.

It provides background material and case studies for teachers and students to gain understanding of how people seek economic growth through business, enterprise and innovation (level five Social Sciences achievement objective).

This book can also be utilised by teachers of economics, business studies and those teachers considering programmes of learning in future-focused themes at levels 5, 6, 7 and 8 of the curriculum.

When selecting the case studies teachers are encouraged to select those stories which reflect the interests of students in their communities.

## IN THE BEGINNING ...

This book tells the story of 14 businesses, large and small, and their quest to take New Zealand-made goods and services to the world.

It also reflects the story of New Zealand exporting itself, which began in the early 1800s when Maori sold wheat, oats, maize and potatoes to the fledgling colony of New South Wales and the first European settlers exported the oil and skins from whales and seals hunted around the New Zealand coast. Since its earliest days, New Zealand has depended on exports for growth and prosperity.

In the years following 1840, pastoral farming became the main economic activity in New Zealand. Colonists discovered that as a farming country, New Zealand had a huge advantage over the Northern Hemisphere countries they had left behind. The temperate maritime climate meant that grass grew all year round and livestock could live outdoors even in winter, rather than being kept in barns during the coldest months as commonly happened in Britain and Europe.


Farming was to provide the foundation for the country's economic development for most of the 19th century.

Only the Central Otago and West Coast gold rushes of the 1860s offered a temporary distraction from the urgent task of bringing land into agricultural production.

Wool was the main product exported because unlike meat and dairy products, it didn't deteriorate on the long sea voyage to Britain, our main market. But all that changed in 1882 when a trial shipment of frozen mutton and lamb was sent from Port Chalmers (Otago) to London on the refrigerated steamship Dunedin. It arrived after a three-month voyage in perfect condition.

Previously, farmers had concentrated on growing wool because New Zealand's population wasn't big enough to consume all the meat and dairy products they were capable of producing. But meat, cheese and butter now joined wool as important export commodities, bringing a long period of economic growth that lasted – with occasional interruptions due to recession and depression – until the 1970s.





New Zealanders were world leaders in agricultural innovation...bringing great advances in farming productivity.



## BRITAIN'S FARM IN THE SOUTH PACIFIC

New Zealand was such an efficient farming nation, and the demand from Britain for food so great, that for decades New Zealand – Britain's farm in the South Pacific, as it was often called – enjoyed one of the highest standards of living in the world.

New Zealand also benefited greatly from Britain's preference for goods from countries within the British Empire.

Income from the sale of meat, wool and dairy products to Britain financed an immense spurt of growth, paying for the development of New Zealand's infrastructure (such as roads, railway lines, communication links, schools and electricity generation) as well as meeting the cost of essential imports such as motor vehicles, machinery and fuel.

For most of New Zealand's first 100 years as a country, the amount we earned from exports comfortably exceeded what we spent on imports. But the gap between exports and imports was too narrow after 1940.

New Zealand depended heavily on farming because, having only a small population, it lacked the economies of scale to develop major industries of its own. The home market was considered too small for the manufacturing of products

such as cars and machinery to be profitable. Nonetheless, from the 1930s onwards the government encouraged the development of manufacturing industries to reduce New Zealand's dependence on imported goods. These industries were protected by rules and regulations which restricted competition from imports. But farmers still earned most of New Zealand's overseas income, and much of the country's economic activity continued to revolve around the rural sector.

New Zealanders were world leaders in agricultural innovation, pioneering aerial topdressing, electric fencing and the herringbone-design milking shed, bringing great advances in farming productivity. But New Zealand's long, golden run of prosperity based on the exporting of meat, wool and dairy products started to come to an end with a series of setbacks in the late 1960s and early 1970s.

## FROM RICH TO POOR

The wool industry took a big hit when carpet manufacturers, who had been big buyers of the wool crop, began turning to newly developed, cheaper synthetic materials such as nylon. Since 1967, the price of wool – once our most profitable export – has been in steady decline.

In 1973 Britain, for so long the loyal customer that bought virtually everything New Zealand produced, joined the European Economic Community (now called the European Union), which meant it had to buy more of its goods from European countries. One of the conditions of its membership was that Britain put strict limits on imports from New Zealand, with the result that New Zealand suddenly lost much of its access to its most important market.

That same year brought the so-called oil shocks, when the oil-exporting countries of the Middle East cut back oil production. That pushed up the price of imported fuel, setting off a long period of inflation that further destabilised the economy.

The effect of these events was that New Zealand went from being one of the richest countries in the OECD (the Organisation for Economic Co-operation and Development) in the 1960s to one of the poorest in the 1990s.

New Zealand's economic growth fell behind that of other developed countries during the 1970s and '80s and our relative standard of living declined as a result. For decades, we have had a stubbornly high current account deficit, meaning we have spent more on imports than we have earned from exports. In other words, we have been living beyond our means.

New Zealand is richer overall than it was 30 years ago, but the increase in wealth has not been nearly as great as that enjoyed by most other developed nations belonging to the OECD. In 1974, New Zealand was ranked sixth of the OECD's 24 member countries in terms of gross domestic product (GDP) per capita, which measures how well off a country is. By 2000, when OECD membership had increased to 30 countries, New Zealand had slipped to 20th place. One of the dangers of this widening income gap between New Zealand and other countries is that more New Zealanders are tempted to move to other countries, such as Australia, in search of better economic opportunities.

During the 1990s, after some painful economic reforms, we partly managed to get back on track, lifting our growth rate to the same level as other OECD countries. But the improvement was not enough to close the income gap that had opened up between New Zealand and other developed economies. If we're going to catch up, we need to grow even faster.

Economists agree that one way to get New Zealand back up among the world's top-performing economies, where we were in the 1950s and '60s, is to improve our exporting performance. But it is not as simple as it sounds.

## WHERE ARE WE NOW?

Since the 1970s, when Britain's entry to the European Economic Community forced New Zealand to look elsewhere for export markets, our export trade has diversified enormously – both in the variety of goods exported and the countries we sell to.

By 2006, New Zealand was selling products to more than 200 countries and territories. Our most important customers are other member countries of the Asia-Pacific Economic Co-operation (Apec) group, which buy about 70 percent of the goods and services New Zealand produces. Australia, the United States and Japan are our biggest markets, in that order, with China and Korea rapidly gaining ground. European Union countries, including Britain, remain an important market and took about 15 percent of our exports.

Agricultural products are still our staple exports but their dominance has greatly diminished since the 1960s. Wool, once our most important export, now accounts for less than three percent of our overseas income. Meat's share has slumped from 30 percent in the mid-1960s to less than half that figure. Dairy products, which provide 18 percent of export earnings, are now New Zealand's most important agricultural commodity, though they remain far below the 28 percent level of 1967.

The decline of these traditional farming exports doesn't mean they are worth less, but simply that as the economy has diversified, other products – such as fish, fruit, aluminium and timber – have grown in volume. Wood accounted for 6 percent of exports in 2006 and aluminium products 4 percent – the latter figure illustrating the economic importance of the big Tiwai Point aluminium smelter in Southland. Fruit and fish accounted for 3.5 percent each and machinery represented 5 percent of exports, the second-biggest category outside agriculture.

The past 30 years have seen a surge in the export of non-traditional products sourced from the land, such as wine, cut flowers and even sphagnum moss. More recently there has been an increase in the export of high-value goods ranging from fashion clothing and cosmetics to movies and TV programmes, luxury yachts and sophisticated electronics.

## ADDING VALUE

Even traditional agricultural products now leave the country in much more valuable and highly processed forms than before.

Since 1987, the proportion of goods exported without any processing has halved. Meat, once sent to Britain as whole carcasses to be cut up at the end of their journey, is now processed into specialty cuts before it leaves our shores.

New Zealand lambs are even grazed on particular types of grass to meet the demands of specific customers overseas.

Milk that was once turned into bulk butter and cheese now emerges from dairy factories in multiple highly processed forms. New Zealand produces several different types of butter (such as unsalted, low-fat and spreadable), an almost infinite variety of cheeses and an increasing range

of specialist nutritional dairy-based products. The more processing that is done in New Zealand to tailor these products for overseas markets, the greater the financial returns and the number of jobs created. Economists call it “adding value”.

Since the 1960s, when air travel started to become more affordable, tourism has also played a vital part in creating employment and economic growth. Incoming tourism was New Zealand’s biggest export earner in 2006, accounting for 19 percent of the country’s overseas income – even more than the prosperous dairy industry.





New Zealand lambs are even grazed on particular types of grass to meet the demands of specific customers overseas.

## BUT THE NEWS ISN'T ALL GOOD

But despite all these positive developments, New Zealand has fallen well behind other comparable countries in terms of its export performance.

Historically, exports have represented about 30 percent of our gross domestic product (GDP), which measures the total value of the goods and services New Zealand produces. In other words, 30 percent of the country's income has come from selling goods and services to other countries rather than from internal or "domestic" consumption.

Generations of New Zealanders have been brought up to think this makes New Zealand a vigorous trading nation, but the reality is very different. New Zealand's trade-to-GDP ratio (around 30 percent) is well below that of other OECD nations (e.g. Ireland's which is about 80 percent).

Between 1960 and 1997, the value of New Zealand exports rose by 404 percent – a figure that looks very impressive until it's put alongside the OECD average of 819 percent.

While farming is still the backbone of the economy, and New Zealand firms have become much more efficient at packing extra value into agricultural products, some economists believe we rely too heavily on the farmer. They point out that world growth in the trading of farm products has fallen far behind trade in manufactured goods, partly because there is a limit to how much countries can spend on food. As the world's population gets richer, the growth in demand for food products will be less than the growth in demand for clothes, houses, luxury and leisure goods and services, and so on.

Another problem with depending too heavily on farm products is that powerful farming organisations in countries such as Japan and the United States put pressure on their governments to limit imports from countries like New Zealand. International negotiations that have freed up world trade in other goods have been less successful in easing restrictions on agricultural products.

On top of that, farm products are subject to fluctuations in demand, so prices are hard to forecast and exports cannot be relied on to increase in value year after year. A severe drought or outbreak of animal disease in another country may result in a short-term increase in demand for New Zealand meat or butter, but trends can just as easily swing the other way.

Many economists say, then, that while New Zealand remains one of the world's most efficient agricultural countries, it's important to continue diversifying the economy and to encourage new export industries – especially in manufactured and highly processed goods and the service sector, where the greatest growth in world trade has occurred during the past 20 years.



## WHY EXPORTING MATTERS

Probably the best measurement of a nation's prosperity is gross domestic product per head of population, or GDP per capita – the total value of the goods and services a country produces, divided by the total population. It gives a good idea how wealthy a country's people are, on average.

GDP per capita is closely related to export performance. Compare charts showing the growth in countries' GDP with their growth in exports and you'll see they are closely aligned. Economists agree that our export performance largely determines our economic growth.

Successful exporting countries generally have high GDP per capita and a standard of living to match. Wages are high and working hours not too arduous. People enjoy good health and education and can afford the luxuries of life – modern cars, nice houses, overseas holidays, leisure goods and other comforts.

In the days when it had a cosy trading relationship with Britain, supplying it with all the meat, butter and wool the British could consume, New Zealand had one of the highest GDPs per capita in the world. But over the past 30 years the country has been buffeted by trading patterns that have caused its position to deteriorate.

In 1960, our GDP per capita was six percent higher than the average for OECD countries. By 1997 it was 29 percent lower.

Over that same period GDP per capita over the entire OECD grew by 139 percent, while New Zealand's only managed to increase by a relatively sluggish 60 percent.

## A STATISTIC TO MAKE YOU THINK

Here's another statistic to make you stop and think: If the growth in exports from New Zealand from 1960-1997 had matched that of OECD countries generally, we would have enjoyed a 247 percent increase in GDP rather than 153 percent.

That would have translated into a higher standard of living, more jobs and better pay.

We have lost ground against the rest of the developed world, and it's largely because our export performance hasn't kept up.

An immense expansion of world trade has taken place in recent decades, but New Zealand hasn't fully participated in it. It's almost as if there's been a riotous party going on and New Zealand has been standing outside, watching enviously through the window.

Economists say it's not too late to join the festivities, but we must lift our game. If we could apply to exporting the same focus and commitment that has made New Zealand such a great sporting country, able to punch well above its weight in everything from rugby to rowing, yachting and horseriding, we could still claw our way back into the elite ranks of exporting countries.

Here are the problems: We are an isolated country with a small population. Our distance from major markets makes it hard to compete with other countries, and our population isn't big enough to generate the internal economic activity we need to keep abreast of other developed countries. For that we must sell more to the rest of the world.

But while factors such as our geographical location are out of our control, others are not.

Too much of our economic activity is devoted to producing goods and services for domestic consumption, which doesn't earn the overseas income we need to pay for goods that have to be imported. And by concentrating on the small local market, New Zealand firms are limiting their prospects for growth.



## PARTYING HARD WITHOUT PAYING THE BILLS

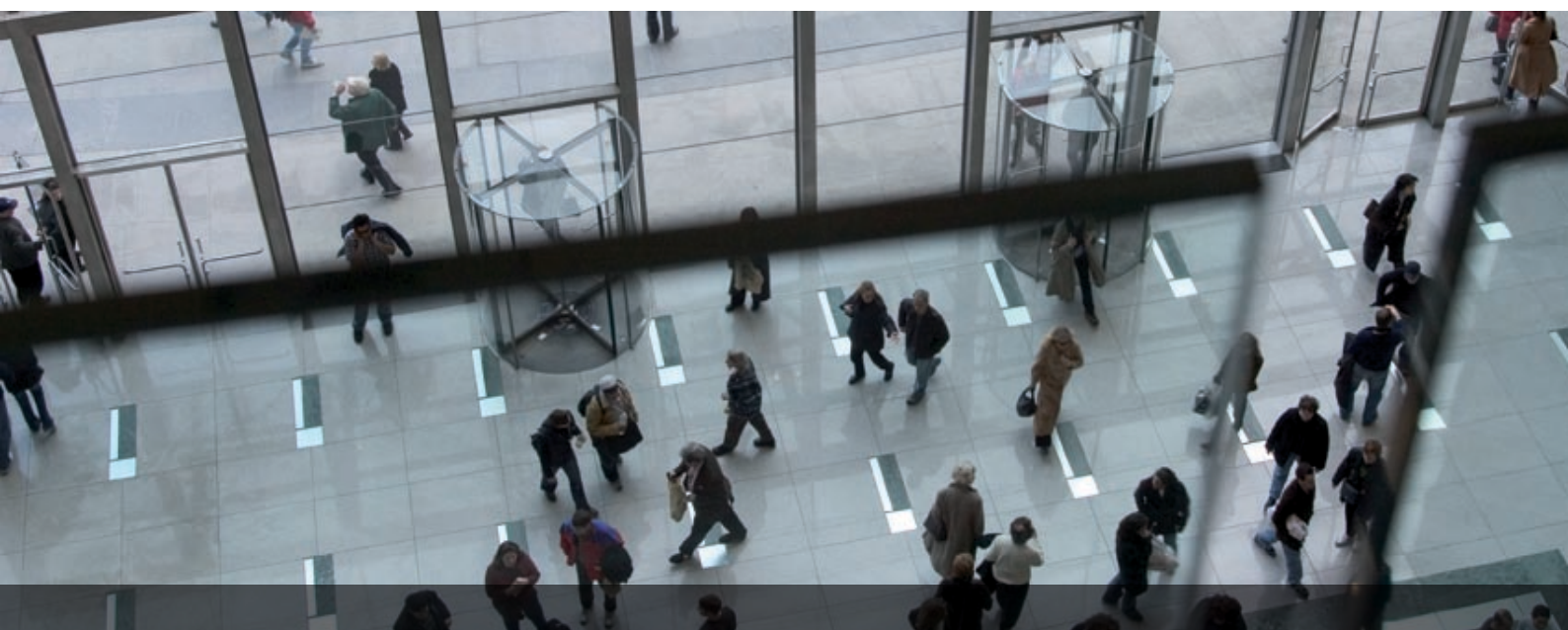
While other OECD countries have been ramping up productivity, investment in industry and overseas trade, and enjoying a steadily rising standard of living as a result, New Zealanders have been bingeing on real estate, BMWs and overseas holidays – partying hard without earning the money to pay the bills.

The result is that New Zealand has a current account deficit from spending more than we earn. This puts strain on the economy because we have to borrow to make up the difference, and as a result our overseas debt has shown an almost continuous rise. In recent years New Zealand's current account deficit has repeatedly reached 8 percent of GDP and higher – more than twice what most economists consider healthy.

Some factors are now working in our favour, such as the increasing wealth of China and India. As these countries continue to develop economically, the demand for quality food products from efficient farming countries like New Zealand is likely to increase. But many economists argue

that we should still try to reduce our dependence on agricultural exports because they face trade barriers, are prone to unpredictable price fluctuations and don't have the same growth prospects as manufactured goods.

We need to continue finding ways to add extra value to those agricultural exports – for example, by additional processing and by developing new, specialty products. But more importantly, we need to continue diversifying our export base by finding new products and services to sell to the world – ideally higher-value, higher-technology products – and ultimately increasing the export sector's share of the economy. Our standard of living will depend on it.



The good news is that many innovative  
New Zealand companies are doing just  
that, as the following case studies show.





## EXPORT CASE STUDY NZ ALUMINIUM SMELTERS

Few export industries have had a greater economic impact than that of the giant Tiwai Point aluminium smelter in Southland.

Commissioned in 1971 and expanded three times since then, the smelter annually produces up to 350,000 tonnes of some of the highest-purity, highest-value aluminium in the world.

It's one of the world's biggest aluminium smelters and New Zealand's largest single-site export industry. In 2006, aluminium from Bluff represented 4.3 percent of New Zealand's total exports.

Bluff was chosen as the site for the smelter in the late 1960s because it was close to a reliable source of hydro electricity from the Manapouri power station, had a deepwater port and could draw skilled labour from nearby Invercargill.

Bauxite, mined in Queensland, is processed into alumina and then shipped to Bluff for further processing. Originally the Bluff smelter produced standard aluminium, but to stay ahead of competition from Asia and the Middle East it switched to making high-purity aluminium used in the aerospace industry and electronic components. Whereas standard aluminium fetches \$US2500 on world markets, the premium aluminium made at Bluff commands an extra \$US500 a tonne – an example of further processing for added value.

Though overseas-owned (by Rio Tinto Aluminium and Sumitomo Chemical), the smelter creates substantial economic benefits for Southland and New Zealand.

A study by economic consultants Infometrics in 2005 showed that the smelter contributed 18 percent of the region's gross domestic product (GDP). As well as employing 780 people directly, it generated economic activity that created nearly 2000 other jobs in the region – jobs that involved supplying goods and services either to the smelter itself or to households spending money earned at the smelter. In addition, 700 jobs in government services such as education and health were attributable to the smelter.

More dramatically, the report spelled out the likely impact on Southland if the smelter were to close. The likely effects would include a \$195 million reduction of the region's GDP and a \$250 million slump in property values. Closure would also mean a population loss of up to five percent, including 2500 children – the equivalent of one large primary school, one large secondary school and reduced rolls in other schools.



## EXPORT CASE STUDY NZ PHARMACEUTICALS

Look up bile in the dictionary and you'll see it described as "a thick yellowish-green alkaline liquid produced by the liver, stored by the gall bladder and secreted into the duodenum, where it plays a major role in the digestion of fats".

Few substances could sound less appealing, but in fact animal bile is a profitable by-product of the meat industry, containing valuable biochemicals that are used in the manufacture of pharmaceuticals.

Since 1971 New Zealand Pharmaceuticals, a company based in the Manawatu countryside at Linton, near Palmerston North, has been extracting and purifying those biochemicals and exporting them around the world. Established with just two staff, it now employs 100 people and has a market value of more than \$100 million. Sales growth in new products and new markets saw staff numbers increase by nearly 50 percent between 2004 and 2007.

NZP is an example of science and technology adding value to a traditional by-product of New Zealand's land-based industries and taking it to a higher level – exactly the strategy economists advocate as the route to greater national prosperity.

Before 1971, bile from cattle slaughtered in New Zealand freezing works was shipped unprocessed to France. But encouraged by the government of the day, which was worried by Britain's looming entry to the European Economic Community and the potential impact on New Zealand's meat industry, meat companies began exploring ways of adding value to their products by further processing.

NZP, originally a joint venture between a consortium of meat companies and Tasman Vaccine Laboratories, came about as a result. Within 15 years it had become one of the world's leading suppliers of bile extracts, which are used in the manufacture of pharmaceuticals. These include cholic acid, used for the treatment of gallstones and liver disease, and deoxycholic acid, a key ingredient in anti-inflammatory steroids. Other NZP products derived from cattle bile include taurine, a nutritional supplement used in infant formula.





Virtually everything NZP produces is exported, mainly to Japan, the United States and Europe. Ironically, the company has long outgrown the local supply of cattle bile and now imports 10 times as much bile as New Zealand can supply.

Bile extracts remain its core business but it also manufactures products obtained from other animal tissues, such as a wound-healing substance extracted from cattle windpipes and an anaemia remedy obtained from horse spleens. NZP has also diversified into plant extracts, including an enzyme from kiwifruit that is sold to Japan as a breath-freshener, and a subsidiary company named Just the Berries exports a range of antioxidants extracted from South Island blackcurrants.

The company has close relationships with Massey University, which is virtually next door, and government-owned Industrial Research Ltd. In a strategic partnership with the latter company, NZP has moved into the rapidly developing field of glycotherapeutics, which involves the production of carbohydrate compounds for use in drug treatments for cancer and heart disease and is seen as a key growth opportunity. These are manufactured in a high-tech \$10 million unit opened in 2007.

Managing director Dr Richard Garland, who began his career with NZP, says the firm has benefited from New Zealand's image as clean, green and disease-free – a big plus when northern hemisphere countries have had to contend with outbreaks of foot and mouth disease and BSE (mad cow disease).

The company has been through several ownership changes – it was once a subsidiary of the multinational chemical company ICI – but was bought by NZP's management and staff in 1998. More recently the private equity firm Direct

Capital acquired a 51 percent share.

The acquisition by staff of a direct ownership stake had a positive effect on the workplace culture and the company has enjoyed a very harmonious relationship with the two unions represented

on the site. Health, safety and the environment issues are cornerstone values and the rewards from the company's performance are shared around – as in 2001, when the entire staff was shouted a long weekend on Australia's Gold Coast to celebrate NZP's 30th birthday.

**NZP is an example of science and technology adding value to a traditional by-product... and taking it to a higher level.**





## EXPORT CASE STUDY ORCA

It started in the boot of a Toyota Corolla. In 1993, that was young Auckland entrepreneur Scott Unsworth's shopfront as he drove around triathlon meets selling his Performance Speedsuit – a wetsuit he had designed himself to give swimmers a competitive edge.

Within a couple of years, the Performance Speedsuit had acquired a new brand name that was synonymous with power, speed and effortless grace in the water: Orca. And now the Orca brand from New Zealand is one of the most recognised names in international sportswear – a fact emphasised at the Athens Olympic Games in 2004, where Orca gear featured in eight different sporting disciplines. The Orca story is a classic case study in Kiwi "can-do" entrepreneurship. It began with one man's dissatisfaction with existing products – the starting point of many commercial success stories – and was carried through to its conclusion by a combination of technical innovation, good design and astute promotion.

Scott Unsworth was a successful triathlete himself until a back injury forced him out of the sport in his early twenties. He turned to coaching young swimmers and then triathletes.

Along the way, he decided he could design a better wetsuit than the one his training squads were using. He took his specifications to a factory and was soon travelling the country selling wetsuits from the back of his car.

A breakthrough point came in 1995 when he not only launched the Orca brand – an inspired choice, because the black and white colours of the orca (sometimes known as the killer whale) were perfect for a New Zealand product – but also seized a golden promotional opportunity when Auckland hosted one leg of the world triathlon championships.

Unsworth made sure Orca signage was everywhere. For good measure, he sponsored one of the top swimmers to make sure the first person out of the water in front of the TV cameras was wearing a suit displaying the Orca brand.





That was the point when he decided to make Orca an international name. Since then there has been no looking back.

Five years later, at the Sydney Olympics, Orca gear was worn by 60 percent of the triathletes. At the 2002 Commonwealth Games in Manchester, eight national triathlon teams displayed the brand and at the Athens Olympics, Orca supplied apparel for the entire New Zealand team.

More than 80 percent of Auckland-based Orca's output is now sold outside New Zealand, making it one of the most international of Kiwi brands. Originally a one-man band, Orca now employs about 20 staff, though much of the work – such as manufacturing and distribution – is contracted out to other firms.

## The Orca story is a classic case study in Kiwi “can-do” entrepreneurship.

The Orca range is sold in 38 countries and has expanded to include running, cycling and training apparel. Designed for comfort, lightness, ease of movement, minimal drag and breathability, Orca apparel incorporates the latest technological advances. Its top-of-the-line wetsuit, for example, features the world's first breathable neoprene.

The brand has been worn by some of New Zealand's most successful athletes – such as Hamish Carter, the Evers-Swindell sisters, Sarah Ulmer, Cameron Brown, Kris Gemmell and Sam Warriner – and the firm's cred in the sports world is reinforced by the fact that its sports marketing manager is former Olympic canoeist and multiple gold medal winner Paul MacDonald.



## EXPORT CASE STUDY PACIFIC HELMETS

Wanganui businessman David Bennett was stopping over in Fiji, on his way home from an overseas trade fair, when he heard about the 9/11 terrorist attacks on New York.

Acting on a hunch, he got on the phone immediately to his company, Pacific Helmets, and told staff to start cranking up production of rescue helmets.

Sure enough, the FBI phoned the very next day with an urgent request for 1500 helmets to equip investigators probing the smoking wreckage of the Twin Towers. By getting a head start – and by securing cargo space on an RNZAF training flight to the United States, with help from the Prime Minister's office – the Wanganui company was able to meet the order.

That quick reaction typified the approach that has made Pacific Helmets a leading supplier of emergency services helmets to more than 90 countries. Bennett, owner and chief executive, attributes much of the company's success to flexibility, adaptability and innovation.

His intuition on the occasion of the 9/11 attacks was based on previous experience. Six years earlier, when a US

government building in Oklahoma City had been blown up by a terrorist bomb, Pacific Helmets had sent the FBI everything it had. "We profit in times of adversity," says Bennett.

Ironically this energetic, export-focused company, which sells roughly 90 percent of its production overseas, came into being as a result of economic policies which protected New Zealand manufacturers from foreign competition. In that respect it typifies New Zealand's transformation from being a protected, inward-looking economy – the "Fortress New Zealand" mentality – to one that is engaged in a competitive, global marketplace.

The original owners of Pacific Helmets, Coleman Suzuki, imported Suzuki motorcycles to New Zealand. Because import restrictions prevented them from bringing in motorcycle helmets, they began making their own. When an opportunity arose in 1982 to buy the helmet factory, Bennett – till then a manager for Coleman Suzuki – grabbed it.



Pacific Helmets' export markets range from small buyers such as Sudan to major customers in the US, Australia and Britain. Far from being disadvantaged by being based in a small country at the end of the world, New Zealand exporters benefit because the country is seen as politically neutral.



The Pacific Helmets story since then has been something of a roller-coaster ride as the company fought to keep afloat through a period of economic turmoil, surviving by rapidly adapting to new circumstances.

In the mid-1980s it secured a vital three-year contract to provide helmets to the New Zealand Fire Service. That marked the beginning of a change of direction that eventually saw the firm move out of motorcycle helmet production – a transition accelerated by the fall in motorcycle sales after the government opened the doors to cheap second-hand Japanese cars. The Fire Service retains a close relationship with the company and provides a “testbed” for new helmet designs.

Another boost came with a high-profile campaign to make helmets compulsory for cyclists, which led to Pacific Helmets developing a cycle helmet that was marketed through an arrangement with the Protect the Brains Trust and school PTAs. By 1993, sales of the firm’s “Pro” brand cycle helmets had reached 230,000 and the factory was operating seven days a week.

By this time the firm was looking for business overseas, and firefighters’ helmets provided the breakthrough. The London Fire Brigade had lost two men in a fire at an underground railway station and was upgrading its equipment as a result. A tender was issued for 4000 helmets and the Wanganui firm won it – with just six weeks to deliver the goods. Deals with other British brigades followed.

Bennett stresses the importance of maintaining strong personal contacts with customers and spends about one week in four travelling overseas. He also emphasises the importance of attending international trade fairs and conventions where large numbers of prospective clients gather on one site.

Fire and rescue helmets are now the company’s main product line, cycle helmets having been dropped from the range. The factory also makes police riot helmets and helmets for ATV vehicles.

Pacific Helmets’ export markets range from small buyers such as Sudan to major customers in the US, Australia and Britain. Far from being disadvantaged by being based in a small country at the end of the world, New Zealand exporters benefit because the country is seen as politically neutral. A New Zealand passport, Bennett says, opens doors that might be closed to people from the US or Europe. It also helps that overseas customers have heard about New Zealand’s magnificent scenery and are almost always keen to visit here.

Asked to identify his firm’s other advantages over competitors, Bennett lists flexibility, innovation, adaptability and the loyalty of the 60 staff. “Flexibility” means being able to bring in extra staff – including husbands, wives and girlfriends – when there’s a big order to be filled. On occasions the production line has stretched out into the company carpark.

Having 60 or more helmet “shell” shapes in the range means the company can quickly adapt one of its existing models to meet a customer’s specifications, whereas a bigger competitor might have to completely retool to produce a new design.

But he also makes the point that it takes constant hard work to stay on top, especially when a company is at the mercy of economic and political forces outside its control. “If it was easy,” he says, “everyone would be doing it.”

## EXPORT CASE STUDY phil&amp;teds

## Overseas customers ringing phil&teds for the first time must wonder what they've struck.

The phone is answered by a recording of a cheerfully laid-back, Bro'Town-type voice asking which "fullas" the caller wants. For "mokopuna" you press 3; for log ... er, logist ... um, freight, you press 5; and so on. It's a uniquely New Zealand brand of humour and people have been known to ring back a second and third time just to hear it again.

### Innovation and adaptability are key features of the company's approach.

As if callers hadn't figured it out already from the company name, the recorded message identifies this Wellington firm as an outfit that does things differently. Spokeswoman Jo Miller describes the company's culture as quirky and irreverent. "We like to have fun," she says.

But it's also phenomenally successful. phil&teds baby buggies and other nursery hardware products are sold in more than 40 countries and 95 percent of the company's business is in exports. Since 1998, sales have grown by a

staggering 14,000 percent and annual revenue has exceeded \$30 million.

The world's biggest nursery chain, Mothercare International, chose phil&teds as the first "brand of choice" in its 300-plus stores (the chain previously stocked individual products rather than entire brand ranges) and the firm has won numerous design and business awards in New Zealand and overseas.

The phil&teds brand has also benefited from patronage by famous Hollywood names such as Gwyneth Paltrow and Brooke Shields, who have been photographed in "celebrity baby" blogs pushing their children in phil&teds buggies.

"Phil and Ted" were the original owners of the company, naming it after the 1989 movie Bill and Ted's Excellent Adventure, about two high school slackers. Working from a house in Wellington, they produced two or three buggies a week.

Former investment banker Campbell Gower invested in the firm in 1997 and bought out the two original partners



**“We leverage off our New Zealandness,” says Jo Miller.**

the following year. By 2007 phil&teds was employing 30 staff in Wellington and the range had gradually expanded from buggies to cots, carrier packs and car seats. Manufacturing is now done in China and the firm stresses that its products meet all international standards and have an excellent safety record.

Asked to identify what has made the phil&teds brand so successful, Jo Miller says the products are designed for parents as well as children. They enable parents to “still live a dynamic lifestyle with kids in tow,” she says.

Innovation and adaptability are key features of the company’s approach. The big selling features of the original three-wheeled, inline buggy were that it was able to accommodate a second child – one sitting behind the other – and could be adapted as the children grew.

**“We’re the little buggy company from New Zealand. People respond positively to that.”**

The inline buggy is still phil&teds’s core product but by clever design and innovation, it has been made even more versatile. A single buggy can be converted into a buggy for two, which in

turn can be adapted into the “lazyted” – an infant bouncer and toddler seat. It’s this sort of clever design that has made phil&teds a finalist for a record three years running in the innovation awards at the world’s largest children’s products trade show, held in Cologne, Germany.

One of the interesting features of phil&teds’s success is that the company has turned New Zealand’s geographical isolation – usually considered a big disadvantage for exporters – into a valuable point of difference against its competitors.

“We leverage off our New Zealandness,” says Jo Miller. “We’re the little buggy company from New Zealand. People respond positively to that.”





## EXPORT CASE STUDY PHITEK

On any given day, more than 120,000 airline passengers around the world listen to in-flight entertainment using cutting-edge technology developed by an Auckland company.

Established only in 2003, Phitek is considered the world leader in its field. Its technology, which reduces background noise in headphones, is used by some of the world's leading airlines – including Singapore Airlines, Emirates, British Airways, Lufthansa and Qantas – and has been adopted by several top audio equipment brands.

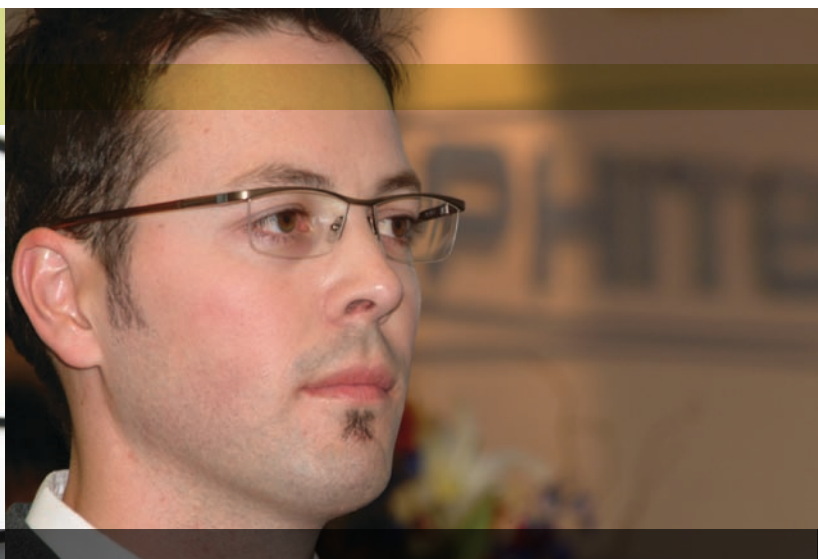
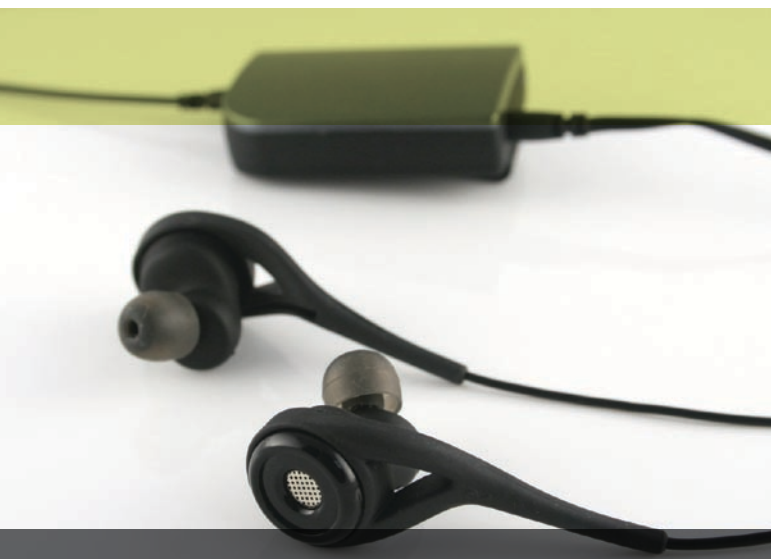
Unlike systems that reduce extraneous noise passively, by using insulation and absorption in headphones, Phitek's technology uses an active noise rejection system known as "anti-noise". In effect, it fights sound with sound, creating an electronic signal that cancels out the offending noise.

Phitek chief executive Mark Donaldson, an Auckland University engineering graduate, says the principle was developed in the 1930s, but the technology of the time wasn't advanced enough to apply it in practical ways. By the 1990s, however, the idea had been refined and proven to work.

Having completed a postgraduate thesis on ways of reducing noise in crew rest areas on passenger aircraft, he could see practical applications for the technology. "I was looking at where my skill set could be applied, and noise cancellation fell into my lap," he says.

At the time, a few brands of consumer audio equipment incorporated active noise reduction technology but it was expensive and not always effective. Donaldson saw an opportunity to develop the technology further, taking advantage of recent research and development. "We extended the level of performance and looked at how it could be practically configured."

Phitek's noise reduction technology is incorporated in the "Smartjack", a standard three-prong headphone connection that plugs into the armrest of aircraft seats. It's compatible with a wide variety of headphone designs and reduces not



only ambient noise inside the cabin, but also external noise from engines and turbulence.

International recognition of the Smartjack connection opened the way for Phitek to move into other areas of audio enhancement technology such as its own headphones, which Singapore Airlines – regularly voted best airline in the world – uses in its first and business class compartments.

Much of the company's business now comes from the design and manufacture of noise-cancelling headphones for leading international audio brands such as Logitech, Audio-Technica and Panasonic. In a New York Times test of noise-cancelling headphones in 2007, the Audio-Technica and Panasonic models tested – both designed and made by Phitek – were judged to be on a par with Bose headphones costing twice as much.

More recently, Phitek has been exploring the use of active noise reduction technology in iPods, mobile phones, MP3 players and notebook computers. The company also produces its own range of headphones and earphones (or

"buds") for the New Zealand market under the "Blackbox" brand, though Donaldson estimates about 98 percent of Phitek products are exported.

The company has a vision of the Phitek brand becoming the industry standard for noise reduction, just as Dolby is for sound quality and Intel Inside for microprocessors.

Though it's a wholly owned New Zealand company with 45 employees in Auckland, mostly engaged in research and development, Phitek also employs about 30 staff overseas. Most of its manufacturing is done in China, which Donaldson says is more cost-effective than New Zealand because of

greater economies of scale and a better supply chain.

Donaldson believes that rather than being frightened by the low-cost manufacturing capability of countries like

China, New Zealand should take advantage of them. He regards the innovative technology and agile thinking of a company like Phitek, harnessed to the manufacturing power of Asia, as a potent combination.

**"I was looking at where my skill set could be applied, and noise cancellation fell into my lap,"**



## EXPORT CASE STUDY SOUTH PACIFIC PICTURES

Turn on a TV set in Ireland, England or Canada and you may be excused for momentarily wondering whether you've left home. The programme you're watching could be *Shortland Street* or *Outrageous Fortune* – both products of the prolific Auckland film and television production house South Pacific Pictures.

South Pacific Pictures has long since outgrown the point where it could survive by producing films and TV programmes for the New Zealand domestic market alone. Now employing up to 900 people at a time, the company is strongly export-focused and relies on international sales for about 40 percent of its revenue. "Overseas sales are absolutely critical," says chief executive John Barnett. Movies and TV programmes made in the West Auckland studios of South Pacific Pictures have been seen in about 45 countries. The medical drama serial *Shortland Street* is watched in most of the countries that once made up the British Empire, including Australia, India, Ireland and Canada. *Outrageous Fortune*, chronicling the eventful lives

of a criminal family from West Auckland, has been sold to Australia, Canada, Britain and Italy, while the award-winning adolescent drama *Being Eve* has been screened in the US, France, Britain and Mexico.

*Whale Rider*, the film for which young actress Keisha Castle-Hughes received an Academy Award nomination, has been an even more remarkable success story, its evocative blend of social realism and Maori mythology striking a chord with moviegoers all over the world and earning box office takings of more than \$45 million. More recently another South Pacific Pictures production, *Sione's Wedding*, has been seen in Australia, the Pacific Islands and the US.





And it's not just the programmes and movies that are being sold overseas – it's now the concepts behind them as well. In a development that marked a significant new step in the company's evolution, South Pacific Pictures has licensed studios in Britain and the US to make their own versions of *Outrageous Fortune*, thus providing another income stream.

As its reputation has grown, the company has been able to draw increasingly on international connections. Many South Pacific Pictures productions are largely funded by overseas investors, usually TV networks or film distributors who have confidence in the Auckland company's ability to deliver products with audience appeal.

The family drama series *Maddigan's Quest*, for example, was 80 percent financed by production partners in Britain and Australia in return for broadcast rights in those countries. And since a large part of the budget is often covered before production even starts, it doesn't require many extra sales for the TV series or film to turn a profit.

**And it's not just the programmes and movies that are being sold overseas – it's now the concepts behind them as well.**

Barnett points out that once a film or TV programme has been made, it costs comparatively little to run off a master copy to sell to an overseas country. It's not as if the entire product has to be made again, as with manufactured goods.

Barnett, who joined South Pacific Pictures in 1993, sees the company as an embodiment of New Zealand's emerging "knowledge economy" – an economy no longer built entirely on products from farms, forests and factories, but capitalising

on creative industries such as film and television.

And he points out that it's not just South Pacific Pictures' own employees who benefit. The company forms the nucleus of an entire industry that uses the services of building supply firms (for film sets), film and sound labs, graphics designers, courier firms, caterers and professional advisers such as lawyers and accountants, many of whom end up specialising in film and TV-related work.



## EXPORT CASE STUDY STABI-CRAFT

There are few wilder stretches of water than storm-tossed Foveaux Strait, which separates Stewart Island from the South Island.

It was here, where massive southerly swells roll in from the Antarctic and savage gales whip around Puysegur Point from the Tasman Sea, that Stabi-Craft aluminium boats were born.

### In Australia's Northern Territory, a Stabi-Craft boat helps in the relocation of man-eating crocodiles.

Paul Adams and his then partner Bruce Dickens produced the first Stabi-Craft boats in the corner of a rented Invercargill warehouse. A coachbuilder by trade, Adams was approached in 1987 by paua divers who wanted a boat that used the same buoyancy principle as rigid-hulled inflatable boats (RIBs), but was tough enough to handle the challenging local seas.

The aluminium boat that Adams came up with wasn't inflatable, but like RIBs it used watertight compartments, or pontoons, for buoyancy and stability. Thus was created the "positive buoyancy" principle that is the basis of all boats

made by Stabi-Craft Marine, the company Adams launched with the help of a \$1000 bank overdraft.

From those modest origins the company steadily expanded to the point where, 20 years later, it employs nearly 70 staff and builds more than 600 boats a year, of which 40 percent are exported. Stabi-Craft boats have been sold to buyers in Australia, the United States, Canada, New Caledonia and Asia, and are built under licence in Britain under the Thanetcraft brand.

In Australia's Northern Territory, a Stabi-Craft boat helps in the relocation of man-eating crocodiles. In Asia, several of the Invercargill-built craft are used by the United Nations to provide disaster relief. In California, the Jean-Michel Cousteau Oceanographic Institute uses a Stabi-Craft for research work. And when Keiko, the famous orca (killer whale) that starred in the Free Willy movies, was returned to the wild near Iceland in the mid-1990s, it was a Stabi-Craft boat that escorted him.



The first Stabi-Craft boat, a 3.5-metre dinghy, was practical rather than pretty. Adams recalls that in the early days, women thought the boats looked ugly. But over time the range has expanded to 25 standard models ranging up to 8.95 metres and designed for recreational as well as strictly functional use. They come in a range of colours and can be customised according to the buyer's individual needs.

All share the common characteristic of positive buoyancy, which means they are virtually unsinkable (a Stabi-Craft boat remains afloat even when it's swamped) and exceptionally stable (unlike conventional boats, they won't capsize even if all the occupants move to one side of the boat).

**The first Stabi-Craft boat, a 3.5-metre dinghy, was practical rather than pretty. Adams recalls that in the early days, women thought the boats looked ugly.**

Stabi-Craft Marine also makes custom-built boats and prides itself on meeting new challenges. The biggest Stabi-Craft, a one-off 14-metre boat built for Dolphin Encounter Kaikoura, was so big that the rear wall had to be removed from the factory to get it out.

The company's success in export markets was recognised in 2006 when it was named Southland's Exporter of the Year, and the following year

Paul Adams was made a member of the New Zealand Order of Merit for services to business.

The \$1000 overdraft has long since been cleared.





## EXPORT CASE STUDY TRILOGY PRODUCTS

Sisters Sarah Gibbs and Catherine de Groot didn't exactly take the easy option when they launched their Trilogy skincare range in 2002.

They knew they were entering one of the most crowded, competitive markets in international business. Sarah says there are an estimated 550 brands of skincare product on the New Zealand market alone and about 24,000 worldwide. Yet the sisters saw an opening in the market for products based on pure, natural ingredients, and they were proved right. From very modest beginnings – “there were just the two of us at the start”, says Sarah – their business grew at a spectacular rate.

**“there were just the two of us at the start...”** Within five years the original range of five products had expanded to 27, including a hair care range, and the company was employing 11 full-time staff and eight part-timers. Sales have increased by a phenomenal 300 percent a year.

The Wellington-based firm targeted the international market from the start, launching Trilogy in Australia and New Zealand simultaneously. By 2007 about 55 percent of sales were to overseas countries, mostly Australia and

Britain, and the company was looking at expanding into the Asian market.

Trilogy's story is a good example of New Zealanders adding value to exports by taking a basic “commodity”, in this case plant oils, and turning them into high-value products targeted at discerning, health-conscious consumers.

An accountant by profession, Sarah previously managed a family-owned business that processed natural plant oils in bulk for use in the cosmetics industry, but faced increasing competition from Asia.

Spotting an emerging market for sustainable, natural products, she and Catherine – a journalist and former beauty editor – came up with a formulation for a small range of “affordable luxury” products, using plant extracts such as rosehip oil, and contracted a laboratory to make them.

The timing was perfect, as health-conscious women were starting to seek out alternatives to mass-produced cosmetics based on artificial ingredients and chemical preservatives.



Rosehip oil is a key ingredient in many Trilogy formulations but others include jojoba, evening primrose oil, avocado oil and non-toxic preservatives such as grapefruit seed extract.

The firm's products are now sold in some of the world's most exclusive department stores, including Printemps and Galeries Lafayette in Paris, Myer of Australia, Lane Crawford in Hong Kong and Takashimaya in New York. Sarah says a "snowball" effect was created: as Trilogy products appeared on the shelves of one big-name store, another would ask if it could stock the brand too.

Favourable notices in glossy magazines helped build awareness of the brand. Trilogy products have attracted the attention of leading fashion and beauty magazines such as Vogue, Marie Claire (whose beauty editor listed them as her favourite), Hello! and Cosmopolitan. And though Sarah says the firm hasn't sought celebrity endorsements, actress and singer Dannii Minogue is one of the brand's fans and her older sister Kylie has also pampered her skin with Trilogy products.

Trilogy's story is a good example of New Zealanders adding value to exports by taking a basic "commodity", in this case plant oils, and turning them into high-value products targeted at discerning, health-conscious consumers.



## EXPORT CASE STUDY VEGA INDUSTRIES

Extraordinary as it may seem, thousands of ships plying the United States coast rely for their safety on a small company based in Porirua, New Zealand.

Optical engineering company Vega Industries is a world leader in the highly specialised field of precision navigation lights, and since the 1990s has been supplying the United States Coast Guard with lighthouse beacons. The Vega beacon is now standard equipment in American lighthouses – a remarkable achievement for a Kiwi company that has only 23 staff and competes against big multinationals.

Vega's signal lights can be found all over the world. In the Panama Canal, they allow big ships to pass each other despite the narrowness of the waterway. On the remote Indian Ocean atoll of Diego Garcia, site of a major US naval base, they enable ships to navigate safely through a narrow opening in a treacherous reef. In the Californian port of Long Beach, one of the world's busiest harbours, they guide massive container ships through a tight channel to the loading dock.

**Like many successful New Zealand exporters, Vega was inspired by the Kiwi "do it yourself" spirit.**

Australia, Canada, Egypt, Sweden, Denmark, Russia, Malaysia, China and Singapore are among the dozens of other countries that have bought the Porirua company's precision lights and navigation aids. Despite its small size, managing director Alistair Taylor estimates Vega's precision

PEL sector light has a 90 percent share of the world market in its field. And although more than 95 percent of Vega's output is exported, its products are widely used in New Zealand

too. Vega equipment keeps remote-controlled lighthouses functioning around the New Zealand coast and is also in use at dozens of railway level-crossings.

Like many successful New Zealand exporters, Vega was inspired by the Kiwi "do it yourself" spirit. The company's founders were keen boaties who regularly used Paremata Harbour, north of Wellington, where a reef made the





approach hazardous. The usual system of navigation in such places, which involved lining up two lights, was impossible because a cliff was in the way. So Norman Rumsey, head of optics in the physics and engineering laboratory of the old Department of Scientific and Industrial Research, devised a “sector light” – a single light that shows a different colour when viewed from different angles.

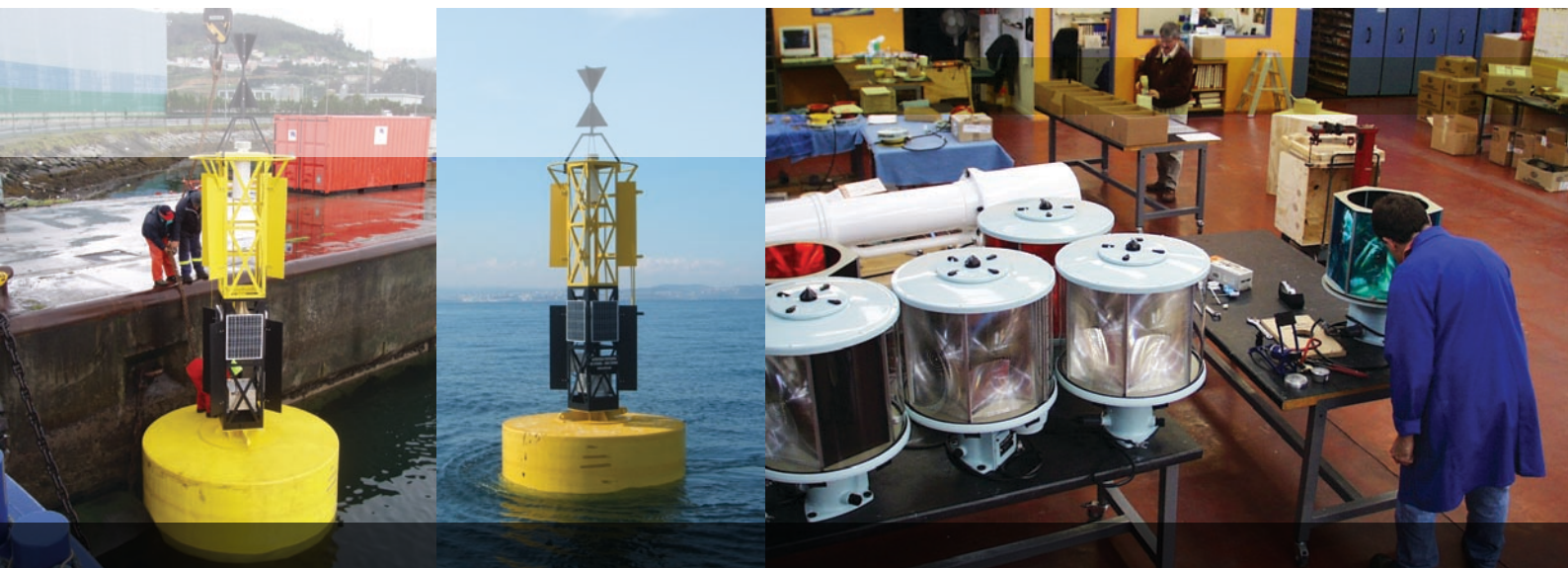
An extremely precise navigation aid, Vega’s PEL sector light – which takes its name from the now-defunct physics and engineering laboratory – was described at the time as revolutionary. It is still one of the firm’s core products, though it has undergone continual refinement.

Vega’s other main products include rotating beacons for lighthouses and buoys, LED beacons for buoys and fixed structures, and remote monitoring systems for lighthouse beacons. The remote monitoring system, developed for New Zealand lighthouses, means beacons can be monitored and controlled from a central site, reducing the need for expensive helicopter callouts when faults occur. The company has also developed powerful searchlights for the New Zealand Navy’s Anzac frigates, extra-bright wide-angle signal lights for railway level crossings, and precision approach path indicators for aircraft.

Though not exactly a household name, Vega equipment is recognised as the Rolls-Royce of its field. It has a reputation not just for absolute precision but also for functioning reliably in hostile conditions where it’s subjected to extreme temperatures, high humidity, harsh sunlight and salt spray.

Though not exactly a household name, Vega equipment is recognised as the Rolls-Royce of its field.

It is also noted for energy efficiency – a key factor in meeting the requirements of the US Coast Guard, which wanted a solar-powered lighthouse beacon using a bulb of no more than 250 watts and able to be self-sufficient for at least 12 months. Vega’s VRB-25 beacon more than did the job: it can be seen from more than 30 kilometres and uses only a 100-watt bulb – the same wattage as a common household light.



## EXPORT CASE STUDY WESTLAND MILK PRODUCTS

Think of dairy companies and you think of butter and cheese. But Westland Milk Products, a highly successful dairy exporter based in the West Coast town of Hokitika, doesn't make cheese at all, and butter makes up only about 30 percent of its production.

Born out of the massive industry shakeup triggered by the formation of dairy giant Fonterra in 2001, Westland Milk is a company that embodies the fiercely independent spirit of the Coast.

It's also at the cutting edge of the New Zealand dairy industry's transition from the production of traditional "commodity" products, such as butter and milk powder, to specialised, high-value "niche" products. In Westland Milk's case these include nutritional milk powders aimed at specific consumer groups, such as infants and the elderly, and "bioactive" products with health-enhancing applications, such as colostrum (the very rich milk that cows produce immediately after calving).

While butter (several different types, in fact) is still an important part of Westland Milk's product range, many of the company's lines are manufactured for the food ingredients market rather than being destined for supermarket shelves. An example is heat-stable milk powder, developed for very high-temperature uses such as the baking of bread. Westland Milk's speciality products line also includes milk powders specially created for use in ice cream manufacturing and "soft serve" ice cream dispensers.

The Hokitika company has built up a very substantial export trade. In 2006-2007 it sold more than \$86 million worth of dairy products to the Middle East and Africa, \$41 million to Southeast Asia, a similar amount to North and South

It's estimated that apart from Westland Milk's own staff, up to 1500 other people on the Coast depend on the company for their livelihood.



America and \$32 million to the Far East. Altogether, exports represented about 85 percent of the company's \$295 million in revenue.

What makes these figures remarkable is that this lucrative trade has been developed in just six years. Before the reorganisation of the dairy industry in 2001, Westland Milk – a co-operative formed more than 60 years ago – processed milk for the Dairy Board, which had the sole right to export dairy products. But when the Dairy Board was abolished and its functions taken over by the giant new company Fonterra, the 380 West Coast farmer-shareholders who supplied Westland Milk made the choice to go it alone rather than become suppliers to Fonterra. It was a decision aimed at ensuring independence and control over the Coast's own destiny, and at protecting the local community against the possibility of factory closures and job losses.

The go-it-alone gamble paid off handsomely. Westland Milk has developed close trading relationships around the world, despite having no previous exporting infrastructure, and its farmer-shareholders have consistently been paid more for their milk than those who supply Fonterra.

Westland Milk is now a major player in the local economy and one of the region's biggest employers. In keeping with the West Coast's history of active trade unionism, the Dairy Workers' Union has a strong presence in the workplace and represents the majority of the company's 300 workers.

Westland Milk deputy chief executive Hugh Little says staff numbers have increased by about 30 percent in six years, contributing to population growth and a general increase in business activity in and around Hokitika.

It's estimated that apart from Westland Milk's own staff, up to 1500 other people on the Coast depend on the company for their livelihood. Transport firms, packaging companies, tradesmen and suppliers of coal and electricity all benefit from the company's activities.

Westland Milk is a classic example of a company drawing on what have historically been the main strengths of the New Zealand economy – namely, the quality of our grass and the efficiency of our farmers – but exploiting those strengths

## Westland Milk is now a major player in the local economy and one of the region's biggest employers.

in new ways, by developing sophisticated new high-value products aimed at an increasingly affluent and health-conscious world.

From being a traditional supplier of bulk commodity products, it is repositioning itself as an "added-value dairy nutritional company". The cows that supply it with milk still graze on some of the lushest pastures in the world but these days that milk is processed into added-value products such as high-protein milk powder, anhydrous milk fat (a high-fat oil used in food processing) and lactoferrin, an immunity-enhancing protein used in nutritional and nutraceutical products.

Westland District Council mayor Maureen Pugh describes the firm as the district's economic backbone. "The quality, value-added jobs which they provide in Westland provide downstream benefits which are not just limited to the economy, with the district receiving tangible benefits in our social and community infrastructure," she says.

"They are the principle reason why Westland is growing faster than the national average, and why on all the key economic indicators Westland continues to outperform other districts on the West Coast."





## EXPORT CASE STUDY WETA

## It's the Kiwi do-it-yourself story that raged out of control.

Movie effects company Weta Workshop started in the back room of a Wellington flat in 1987 with just two partners, Richard Taylor and Tania Rogers. Within 20 years it employed 500 people, occupied a 65,000 square-foot production facility and had helped transform an entire suburb. Along the way it has won several Academy Awards, sharing an exhilarating ride to world acclaim with film director Peter Jackson.

The Lord of the Rings, King Kong, The Lion, the Witch and the Wardrobe and Xena: Warrior Princess are just a few of the productions to have benefited from Weta's magical and sometimes ghoulish special effects mastery.

Wellington mayor Kerry Prendergast has watched Weta and Jackson's Wingnut Films (separate companies, but closely related) breathe new life into the suburb of Miramar and says their economic impact locally has been immense. She cites Weta as an example of the new "weightless" economy where value lies in ideas, skills and knowledge rather than physical products.

Between them, Weta and Jackson have put Wellington – and New Zealand – on the international movie-making

map, inspiring the nickname Wellywood and helping the capital city to shake off its old image as a place inhabited by cardigan-wearing public servants. Movie and TV production has been identified as a key driver in Wellington's new, "creative" economy, with one economic impact report estimating its value to the city at between \$250 million and \$650 million over 10 years.

In its early years, when it was known as RT Effects, Weta made puppets for the Gibson Group's TV satire show Public Eye. Later came the extraordinarily fruitful and close relationship with Jackson and producer Jamie Selkirk, both of whom became partners in the company.

The ghoulish "splatter" movies that helped make Jackson's reputation – Bad Taste, Braindead and Meet the Feebles – had substantial input from Weta. The company went on to provide effects for the Xena and Hercules TV series, which were cult hits internationally.

As Weta's reputation grew, Hollywood directors and producers began beating a path to its door. The hit movies Master and Commander, The Last Samurai and The Legends



of Zorro all used Weta effects, and most of the company's work is now done for the overseas market.

Weta Workshop's range of services includes design, makeup and prosthetics, creatures, miniatures, armour, prop-building and costumes, while the closely related firm Weta Digital – the people who brought you Gollum and the spectacular Battle of Helm's Deep in Lord of the Rings: The Two Towers – creates Oscar-winning computer-generated visual effects.

Along with Jackson's production company, Weta has brought new life to Miramar, where they are based. Multi-million dollar studios, soundstages and production facilities have brought a vibrant buzz to a suburb that was previously in decline, and turned the Miramar Peninsula into some of Wellington's most desirable real estate.

Michael J Fox started the trend when he rented a house on the peninsula while starring in Jackson's film The Frighteners (which featured Weta effects), and property values surged even higher when the stars of the Lord of the Rings trilogy

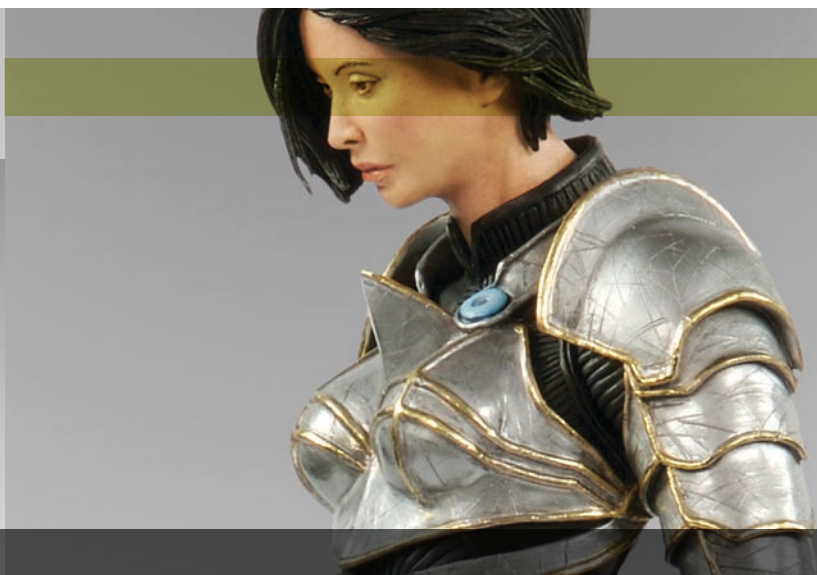
**“The crew at Weta have come together from diverse backgrounds and crafts, but are all united by their passion for creating products that everyone can enjoy. As long as there is a will to make cool stuff, there will always be work going on at Weta!”**

began moving in to the area. From being a little suburb with a dairy, a library, a supermarket and a vet, as Kerry Prendergast describes the old Miramar, it became a mecca for celebrity spotters.

Prendergast says the movie business is now attracting a new type of permanent resident to Wellington.

At citizenship ceremonies she invariably meets newly naturalised New Zealanders, usually with American accents, who have come to work for Weta or Jackson.

But while it has become one of New Zealand's most successful export companies, Weta still has a sense of fun – hardly surprising in a business that earns its money creating often outlandish fantasy creatures. As the Weta website puts it: “The crew at Weta have come together from diverse backgrounds and crafts, but are all united by their passion for creating products that everyone can enjoy. As long as there is a will to make cool stuff, there will always be work going on at Weta!”



## EXPORT CASE STUDY WHALE WATCH KAIKOURA

For an example of how an internationally focused business enterprise can transform a town, look no further than Kaikoura.

Despite its uniquely beautiful setting – snowcapped Kaikoura Mountains on one side, sparkling blue Pacific Ocean on the other – the South Island coastal town was deep in the doldrums in the 1980s. Unemployment was high, families were moving away and travellers regarded Kaikoura as a place where you stopped only to buy petrol or go to the toilet. Today, Kaikoura is one of the jewels in New Zealand's tourism crown and the picturesque town is humming with life. Busy cafes line the streets and the parking areas are filled with buses and camper vans.

It's a remarkable transformation that came about largely because of Whale Watch, a bold venture launched by local Maori determined to prevent their community from falling apart.

Though not an exporter in the traditional sense, Whale Watch earns vital overseas revenue just as businesses exporting manufactured goods do. In fact incoming tourism was New Zealand's biggest export earner in 2006, accounting for 19.2 percent of the country's overseas income – even more than the prosperous dairy industry.

As one of New Zealand's top tourist attractions, Whale Watch is a significant contributor to that income, with 100,000 visitors a year – 85 percent of them from overseas.

The Whale Watch story is a classic example of a great idea inspired by adversity. In the mid-1980s the New Zealand economy was in a state of upheaval and the outlook was bleak for many small rural towns. Government subsidies for farmers had been cancelled, government departments were drastically downsizing and a new fisheries quota system was driving many small fishing operations out of business.

The effects were particularly pronounced in Kaikoura. Railways and the Ministry of Works, both big employers of local Maori, heavily slashed staff numbers. Local people who had traditionally earned their income from a variety of sources – a bit of farming here, some fishing there – suddenly found work hard to get. Unemployment rose, the social stress started to tell and people began to drift away in search of a better future elsewhere.





The people of the local Kati Kuri hapu, a sub-tribe of Ngai Tahu, decided in 1987 that they couldn't rely on others for a solution to the town's decline. "They came to the conclusion the only people they could rely on were themselves," says Whale Watch chairman Wally Stone. "The future was in their hands."

For economic salvation, they turned to the sperm whales that for centuries had congregated in the deep underwater canyons off the Kaikoura coast. In Maori legend the mythical figure Paikea had come to Aotearoa on the back of the whale Tohora. In more recent history, the whales' valuable oil and blubber had attracted the first Europeans to the area. Now the giant creatures were once again to provide the key to the town's prosperity – except that this time, whalers' harpoons were replaced by tourists' cameras.

Whale Watch began with a handful of staff and one boat capable of taking 10 people at a time out to view the whales close up. A prior feasibility study had not been promising – "too many negatives," says Wally Stone – and many locals dismissed the plan as hare-brained. But by a fortunate coincidence Whale Watch was launched just as a new type of foreign tourist was turning up in New Zealand – younger,

more independent, and prepared to venture off the established tourist routes in search of new discoveries. Whale Watch offered them just the sort of experience they craved.

It was also perfectly in tune with an increasing appreciation of environmental values. The combination of indigenous

ownership and environmental sensitivity, with an element of Maori mythology thrown in, proved a winning formula.

Today Whale Watch has a fleet of five specially designed catamarans, each capable of taking 50 passengers, and

employs 70 staff in peak periods. But just as important, other businesses, encouraged by Whale Watch's popularity, have set up in the town and tourism activities have proliferated. Reinvigorated and buzzing with confidence, Kaikoura has a future again.

The MP for the district, Colin King, has watched Whale Watch's progress and says it has had enormous benefits for the town's confidence and self-esteem. "I believe the success of Whale Watch has convinced Kaikoura that it can do just about anything. The spinoff has been hugely positive.

"If we could find another 10 enterprises like Whale Watch, this country would be humming."

**"If we could find another 10 enterprises like Whale Watch, this country would be humming."**



## EXPORT CASE STUDY YARROWS

Buy a Subway sandwich in Australia, Japan, Korea or Taiwan and you'll be sinking your teeth into a bread roll made in the tiny South Taranaki town of Manaia, population 1008. That croissant you had with your coffee in Las Vegas or Hawaii? Same.

Both products are made by Yarrows (The Bakers), a long-established family business that has remained steadfastly loyal to its Kiwi small-town origins while simultaneously breaking into export markets all around the Pacific. Though it's a big supplier of bread and other bakery products within New Zealand, and especially in its home province, 60 percent of the company's business is overseas – and it's increasing.

The key to Yarrows' export success is its frozen dough products – bread rolls, gourmet breads, butter pastries and croissants – which make up 80 percent of its production. Each month, Yarrows staff make, shape and freeze raw dough for one million Subway rolls. These are then exported by the container load to 2000 Subway stores in Australia and Asia, where they are baked on-site and served fresh to the customer.

The Taranaki firm beat 22 other contenders in winning a 10-year contract to provide Subway with rolls, and also supplies Subway Japan with cookies. Subway liked the fact that Yarrows used traditional, chemical-free breadmaking methods and that their rolls contained natural ingredients such as butter rather than hydrogenated oils and nitrates.

What makes Yarrows unusual is that the firm combines old-fashioned values – it's a family company, strongly committed to its employees and hometown – with a progressive approach to the adoption of new technology and a sharp eye for niche marketing opportunities. Managing director Paul Yarrow, whose grandfather started the bakery in 1923, says the company's staff is its biggest asset. That, and a “can do” attitude.





In the late 1930s, company founder Alf Yarrow installed one of the first mechanical bread mixers in New Zealand. In the 1950s the firm began using egg pulp, which saved having to break hundreds of eggs, and compressed yeast, which reduced baking time. Today, liquid yeast is delivered in 10,000-litre tankers and the bakery uses technology that photographs every Subway bread stick 280 times per second during manufacture to ensure it complies with the standard.

Paul Yarrow admits that a small Taranaki town may not be the ideal base for an exporting company, but what might have been a disadvantage in fact worked for Yarrows by sharpening the firm's survival instincts. Lacking a big domestic market and constantly under pressure from the big multinationals that control the bread trade, the firm looked for niche marketing opportunities. Gourmet cakes made with glaze (sugared) kiwifruit were one of the company's early exporting initiatives, and later came the frozen dough. "We are only pinned down by our minds and our ability to find solutions," Yarrow says.

With 380 staff, the bakery is the biggest employer in a town that might otherwise have faced a bleak future when rural New Zealand went into economic decline in the 1980s. South Taranaki mayor Ross Dunlop says Yarrows has not only

helped to keep Manaia alive, but as a source of jobs has been good for other nearby towns – Opunake, Kaponga and Hawera – as well. Yarrows is also a major backer of Taranaki

sport, giving its name to New Plymouth's Yarrow Stadium and sponsoring the annual Around the Mountain Cycle Challenge, which attracts 2500 riders.

It's never easy though. "Convincing people to buy something from New Zealand is hard enough," Paul Yarrow says, "but convincing them to buy something from Manaia is even harder. The Subway people in the USA initially couldn't even find it on the map."

But in a funny sort of way, being from Manaia has helped, too, because it has forced Yarrows to be a little more inventive and to look harder for opportunities in the market. After all, says Yarrow, "people aren't going to come to Manaia to buy a product unless we can do something pretty special for them."

**"We are only pinned down  
by our minds and our ability  
to find solutions"**





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