

Exporting challenges and responses of New Zealand firms

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Foreword



Aotearoa New Zealand is in a period of transformation, a generational shift from volume to value. Historically, our economy has relied heavily on a few primary commodities. But we are increasingly seeing businesses chase a higher value niche and discerning global consumers across food and beverage, specialised manufacturing, tech and services.

This analysis offers further general insight into the challenges exporting firms face doing business internationally, and specific insights into the broader complexities of this transformation. This analysis canvasses some of the challenges we see businesses grapple with most frequently, including: how brands communicate their story and offering; how to find partners and channels through which companies can share value; how to deal with bigger and more competitive domestic markets; and how to find the right price structure to support premium strategies.

Furthermore, this analysis shows us how these challenges vary from sector to sector. Challenges experienced by the F&B companies, such as brand propositions and market access, loom large, while for manufacturing the emphasis is on channels and channel partners. Service firms are heavily reliant on in-market recruitment, networks and resources.

To add another layer of complexity, all these sectoral variations operate differently within different geographical markets. Therefore, the biggest take-away is that while we talk in general terms about ‘taking New Zealand to the world’, it’s really the micro strategies and the micro learnings that matter, which is why this analysis is so useful.

International trade is important to improve our productivity levels, and productivity is the biggest generator of wealth and prosperity for all New Zealanders. For NZTE, this means we are focussed on supporting that generational shift of volume to value, supporting those organisations striving to produce niche-hunting, knowledge-intensive, high-value products and services. These insights will inform the practical ways that we can support these organisations to grow internationally, for the good of New Zealand.

Peter Chrisp

Chief Executive,

New Zealand Trade & Enterprise – Te Taurapa Tūhono



Tēnā koe.

New Zealand's exporting firms are key to its economic success. Having more world leading firms trading goods and services internationally can lift our productivity and the wellbeing of all living in Aotearoa.

Te Kōmihana Whai Hua o Aotearoa is delighted to work with New Zealand Trade & Enterprise on this study to shed light on the key challenges faced by exporting firms.

In an environment where nothing is certain, it is essential to learn how to best support our exporting firms to lift productivity and help secure New Zealand's economic future.

We welcome the analysis and findings of this report. These will contribute to the Productivity Commission's inquiry into the performance and economic contribution of New Zealand's most productive frontier firms.

I invite exporting firms and New Zealand Trade & Enterprise to consider this whakaaro and take away new ideas about how to best support the performance of our exporting firms.

Dr Ganesh R Ahirao (Ganesh Nana)

Chair,

New Zealand Productivity Commission – Te Kōmihana Whai Hua o Aotearoa

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Key points

- This paper describes the challenges New Zealand exporters faced, based on text analysis of communications between New Zealand Trade and Enterprise (NZTE) and internationally-ambitious businesses (F700 firms) from January 2015 to February 2020. It also explores what the firms and NZTE did to respond to these challenges.
- The five most commonly reported¹ challenges were building brand awareness, finding the right partners and channels (ie intermediaries, such as retailers and distributors), strong overseas competition, understanding how destination markets differed from New Zealand markets and each other, and determining the right export pricing strategy and product-related costs to remain competitive and profitable.
- *Brand awareness* was the overriding main challenge faced by firms in all industries and main destination markets (Australia, China and Taiwan and North America) but the second and third ranked challenges differed, reflecting the differences in products and services sold and destination markets. The prominence of brand awareness as the dominant challenge reflects the fact that New Zealand exporters are typically small by international standards (New Zealand Productivity Commission, 2020).
- Manufacturing firms ranked finding the right partners and channels and strong competition as the second and third most important challenges, while food and beverage firms ranked partners and channels and determining the right export pricing strategy and product-related costs as their second and third most important challenges. Services and tech firms faced challenges in *competition* and *presence and recruitment*.
- Firms targeting Australia cited *partners and channels* and *competition* as their second and third main challenges. The rankings were reversed for firms targeting North America where *competition* and *partners and channels* were their second and third main challenges. Firms targeting China and Taiwan reported facing challenges in *partners and channels* and *cost and pricing*.
- In response to these challenges, the five most common activities² undertaken by firms and the NZTE were *introductions and networking*, *working with distribution and market partners*, *strategic planning*, *market intelligence*, and *training and recruitment*.
- *Introduction and networking* was the dominant main activity undertaken by firms in all industries, size and destination markets but the second and third main activities differed, reflecting the different challenges faced by these firms.
- In addition to the dominant main activity, food and beverage and manufacturing firms most cited activities were *working with distribution and market partners* and *strategic planning*. Services firms ranked *strategic planning* and *market intelligence* as their second and third main activities and firms in the Tech industry ranked *training and recruitment* and *strategic planning*. These activities were consistent with the challenges cited in the industries.
- Firms targeting Australia ranked *strategic planning* and *market intelligence* as their second and third main activities while firms targeting North America ranked *strategic planning* and *training and recruitment*. Firms targeting China and Taiwan ranked *working with distribution and market partners* and *strategic planning* as second and third main activities.

¹ Reported in 20% or more of exporting firms' game-plans with NZTE

² Reported in 10% or more of all documents analysed

1 Introduction

Exporting is a crucial part of raising economic performance, especially for a small distant country like New Zealand. Only through exporting can New Zealand firms specialise in niche markets and operate a sufficient scale to affect national productivity performance. However, exporting from New Zealand can be a hugely risky step for firms, who face large fixed costs when entering foreign markets and are typically forced to make that leap when relatively small (New Zealand Productivity Commission, 2020).

Given the importance of exporting in raising national productivity, a key concern of policymakers is to understand whether there are specific barriers or difficulties faced by firms when they sell goods and services overseas and whether these barriers are amenable to policy intervention.

This paper aims to answer the following questions:

- What types of challenges or barriers are faced when firms export goods and services overseas?
- How do these challenges and approaches differ between types of firms?
- What do firms do in response to these challenges?

To answer these questions, we analysed text communications between the New Zealand Trade and Enterprise (NZTE) and F700 firms. “F700 firms” are approximately 700 knowledge-intensive companies that NZTE has assessed as having the growth aspirations and ability to compete globally.

We explore if there are patterns of challenges faced by F700 firms when exporting products and services overseas. We also examine how firms and NZTE approach these challenges and explore commonalities and differences in reported challenges across different industries, overseas markets and firm sizes.

The research focuses on the key challenges firms faced when exporting overseas before the economic disruption caused by Covid-19. These enduring challenges are unlikely to change when the global economy stabilises from the pandemic.

This paper is one of several research inputs into the Commission’s frontier firms inquiry.³ This paper is also the first in a series of papers from the joint Commission and NZTE research project aimed to understand the behaviour and barriers related to exporting firms. The second paper investigates the factors and barriers that shape the international revenue growth of firms in the tech industry. The third paper looks at the barriers to exporting from the Longitudinal Business Database (LBD).

The remainder of the paper is organised as follows. The next section provides a brief overview of NZTE’s roles in helping exporting firms. Section 3 describes the data and methodology. Section 4 discusses the findings and the last section concludes.

³ For details on the inquiry, see: <https://www.productivity.govt.nz/inquiries/frontier-firms>

2 About New Zealand Trade and Enterprise

New Zealand Trade and Enterprise (NZTE) is the government's international business development agency. It is a Crown entity, operates under the Crown Entities Act 2004, the Public Finance Act 1989 and the NZTE Act 2003. Its purpose is to grow export businesses internationally for the good of New Zealand. This includes two core activities: to support exporters to succeed, and to help match investment opportunities for New Zealand firms with capital and international connections. (NZTE, 2019). In the 2019/20 fiscal year, NZTE received \$214 million in Crown operating and grant funding to carry out these roles (NZTE, 2020).

NZTE supports businesses to grow, enter new markets and expand exports into existing locations. NZTE works with New Zealand's other internationally facing and innovation agencies, including the Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade, Ministry of Primary Industries and Callaghan Innovation. NZTE also works with coalitions; which are self-selected, business-led groups of firms that are willing to work together on a common opportunity, challenge or go-to-market purpose. In 2019, NZTE engaged and worked with approximately 5,500 companies with a portfolio value of around \$36 billion. The nature of these companies is diverse, including food producers, manufacturers, Maori, tech start-ups, service providers and more.

NZTE classifies companies into three categories of engagement according to their growth stages, capabilities and aspirations: F700⁴, Build and Foundation Start. The F700 refers to approximately 700 knowledge-intensive companies that have the growth aspirations and ability to compete globally and this is where NZTE allocates the most efforts and resources into (80% of total resources). Within this category, 250 companies (35%) earn less than \$3m international revenue while only 2% earn more than \$500m. The F700 companies come from a variety of industries, namely specialised manufacturing (36%), high-value food and beverage (27%), tech (25%), services (11%) and infrastructure and resources (1%).

NZTE works with these companies to determine the challenges and opportunities for growth and develop a plan to allocate services and resources to them. Companies who commit to target markets will receive resources from NZTE to support the market. Hence, tailored 'game-plans' are designed for each company and for each market. These game-plans identify the key challenges and opportunities for each firm and market. NZTE's Foundation companies are generally at an earlier stage in their international journey so engagement with them is lighter than for F700 firms. Further information on Build and Foundation companies are available on the NZTE website (NZTE, 2019).

⁴ The F700 programme was rebranded 'Focus' in 2020

3 Data and methodology

Identifying what challenges firms face, and how they respond to those problems, is essentially a qualitative research problem. There are various possible qualitative research approaches we could employ, such as interviewing. In this paper, we applied text mining on existing documents held by NZTE. The benefits of this approach include:

- large sample size – we cover a large number of New Zealand’s well-established exporters
- detailed information on firms’ objectives and strategies
- rigour – we can consistently apply a single approach to all firms studied, without making subjective judgements about individual firms
- non-intrusive – we need not distract exporters from their business to participate in surveys or other activities.

3.1 Data

We use all communications and correspondence (except for emails⁵) between NZTE and F700 companies from January 2015 to February 2020. In the correspondence, NZTE has documented the *game-plan and objectives* for individual firms. A *game-plan* contains a firm’s international growth strategy, export opportunities and challenges in a market. An individual exporting market game-plan spans several years as exploring and exporting to a foreign market is a long process.

NZTE works with the firms to agree on objectives where NZTE could provide help and support to achieve the objectives. This support is defined in terms of activities according to the agreed objectives. These are tangible steps that NZTE and the firms do separately or collectively. NZTE reviews the objectives and activities on a regular basis as firms’ business situations or the environment of the destination market can change over time. A recent example of the dynamic external environment is the uncertainty created by Brexit. A new objective will be developed based on the game-plan when the existing objective is no longer ‘fit-for-purpose’. Hence, a market game-plan could have multiple sets of objectives and activities.

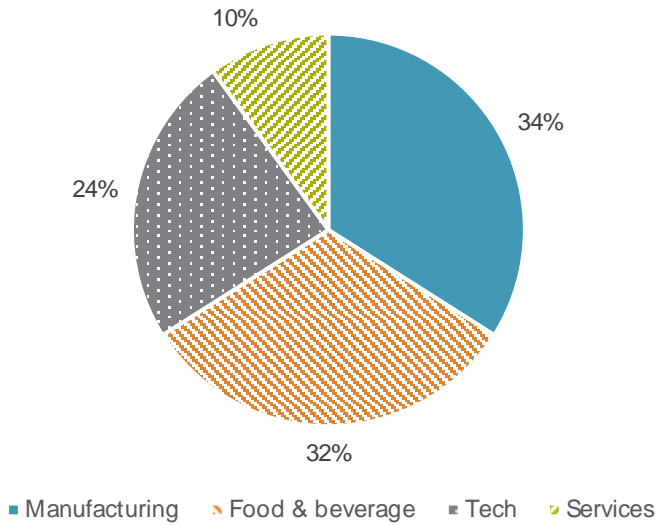
In our study, we analysed 22,738 activities, 6,360 objectives and 1,265 game-plans for 574 companies which had active game-plans throughout the period of analyses. This provided data to capture five years of challenges faced by individual F700 companies when they exported.

Firms covered by this analysis

Of the 574 firms studied, roughly a third each were in the manufacturing or food and beverage (F&B) industries (Figure 3-1). Note this classification does not align exactly to ANZSIC classification by Statistics New Zealand.

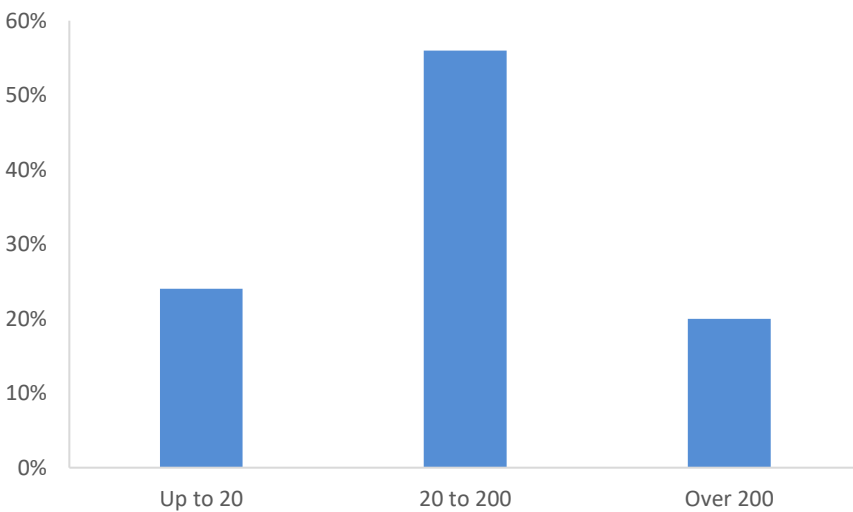
⁵ Emails were stored in a format that meant they were not accessible for bulk text processing.

Figure 3-1 Industry composition of analysed firms

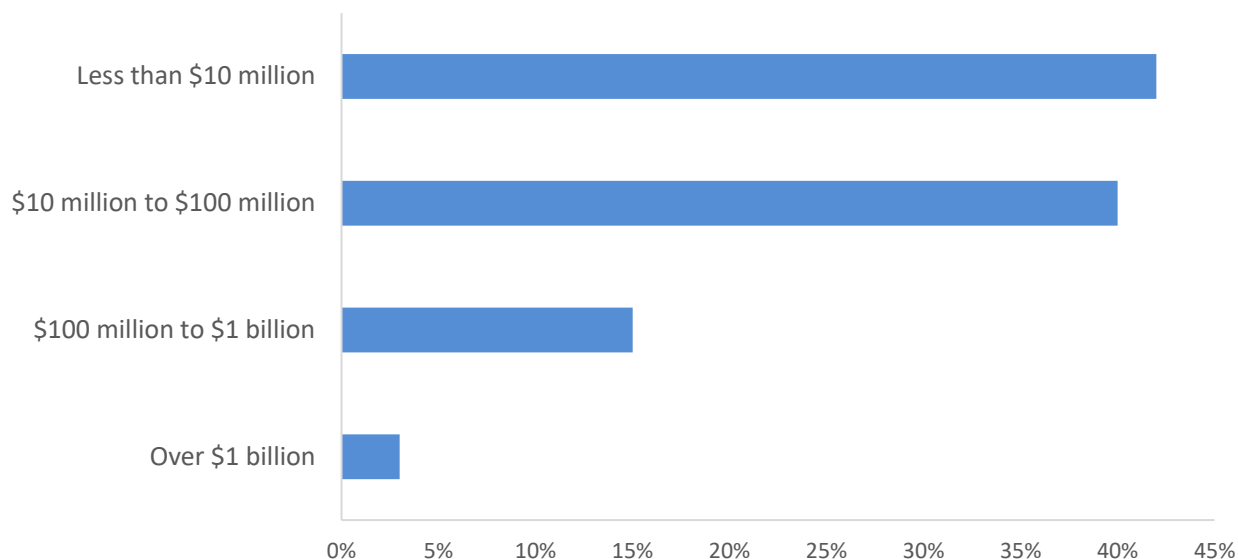


The majority (56%) of the firms were medium-sized, with between 20 and 200 full-time equivalents (FTEs) (Figure 3-2).

Figure 3-2 Analysed firms by numbers of FTEs



42% of the analysed firms generated annual total revenue of less than \$10 million (Figure 3-3).

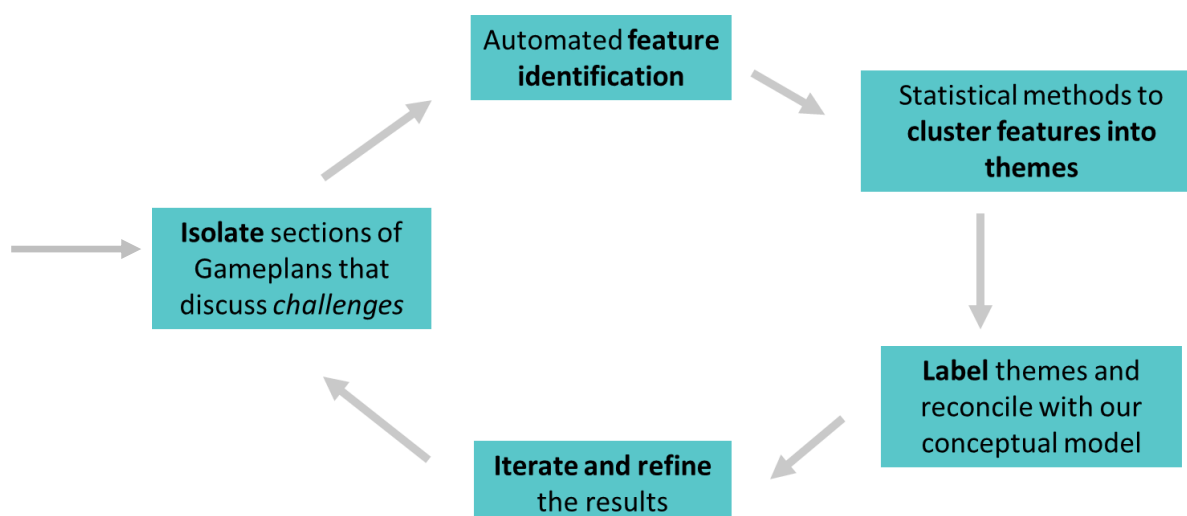
Figure 3-3 Analysed firms by total revenue

Some game-plans are aimed at more than one foreign market. The frequencies with which key markets were mentioned in game-plans were:

- North America, 24%
- East Asia, 22%
- Greater China (includes Taiwan and Hong Kong), 19%
- Australia, 14%
- European Union (including United Kingdom), 11%
- India, Middle East and Africa, 6%
- Latin America, 3%

3.2 Text mining

NZTE contracted the consultancy Text Ferret Ltd⁶ to carry out text mining. Text Ferret applied the following process to identify the challenges to exporting that were identified in firms' game-plans (Figure 3-4).

Figure 3-4 Text mining process

The process combines objective steps (feature identification, clustering) with subjective steps (theme labelling, manual refinement).

⁶ <https://www.textferret.com/>

Text Ferret then used a simplified version of the above process to identify *activities* in the documentation held by NZTE.

3.3 Caveats

This methodology provides a broad, consistent and reproducible view across most F700 companies. It does, however, have one key limitation; it captures the challenges and activities that are recorded in the NZTE correspondence.

In other words, we do not report any challenge or activity unless:

- the firm talks to NZTE about it, and
- the NZTE staff member documents it in the game-plan, objective or activity.

We may expect, therefore, that the focus will be:

- primarily on problems that NZTE routinely helps with, and
- to a lesser extent, on problems where NZTE can at least offer some advice.

It is important to bear this selection bias in mind when interpreting the results.

Note also that the text mining approach is 'research grade' rather than 'forensic grade'. In other words, the level of reliability is not 100% but is sufficient for statistical analysis. There are both false negatives (challenge/activity is present but not detected) and false positives (challenge/activity is mistakenly detected when not truly present).

4 Results

This section describes the challenges firms faced when exporting and what firms and/or NZTE do to overcome them.

4.1 Challenges firms faced

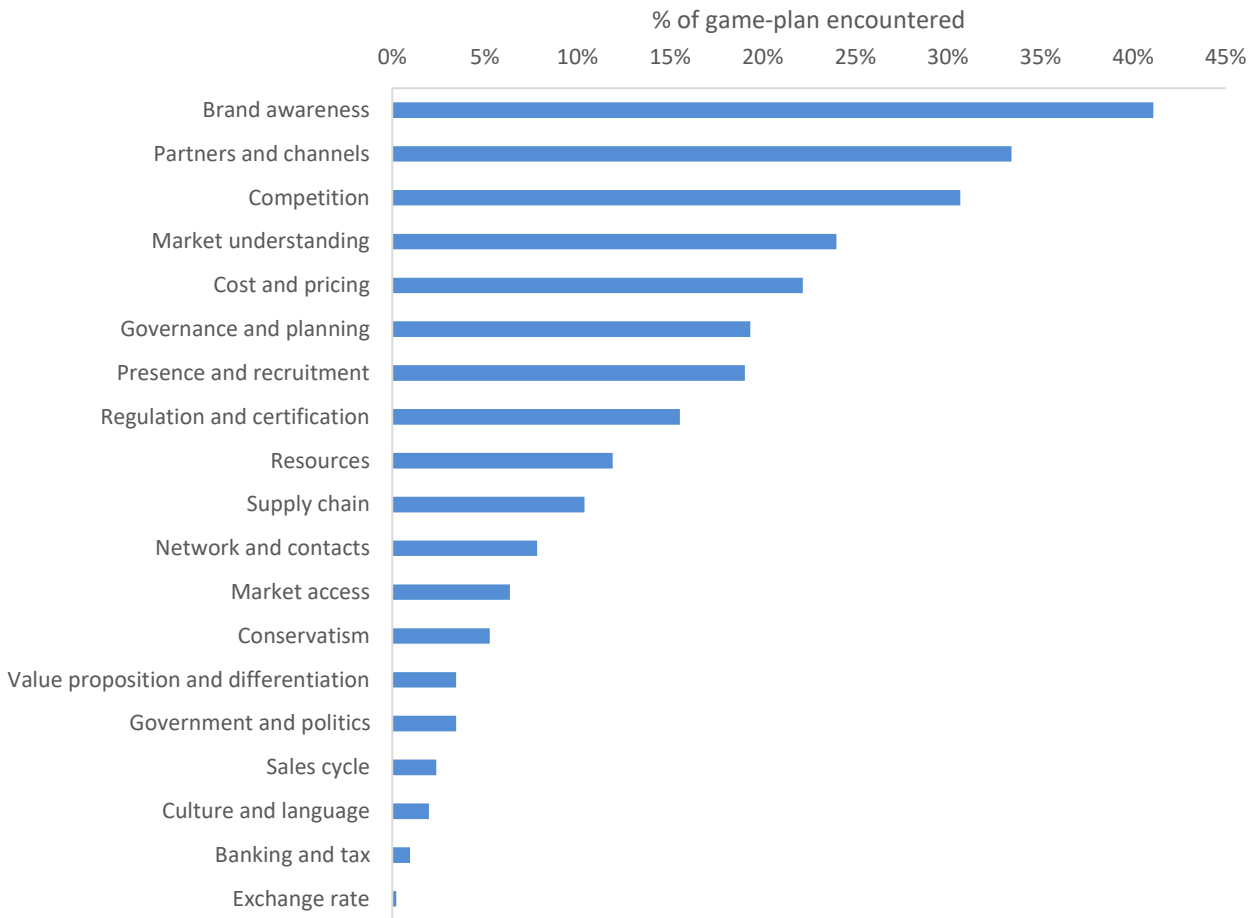
The challenges were divided into three broad categories (noting that there are some grey areas, and some challenges could fall into more than one category). Anonymised case studies are provided below to illustrate the challenges firms faced.

- **Getting in front of the consumer** – i.e. bringing goods and/or services to market. These challenges include, in decreasing order of observed frequency:
 - **Partners and channels** (where *partners* include distributors, retailers, wholesalers, etc, and *channels* can be either digital or bricks-and-mortar)
 - **Regulation and certification** (meeting regulatory requirements of the overseas market)
 - **Network and contacts** (establishing key relationships and building credibility)
 - **Market access**
 - **Supply chain**
 - **Government and politics**
- **Winning the consumer** – i.e. successfully competing in the overseas market. The challenges were, in decreasing order of observed frequency:
 - **Brand awareness** (creating and raising knowledge of the company's brand(s) in the overseas market)
 - **Competition** (presumably always present, at least in potential terms)
 - **Cost and pricing** (covering both production cost and pricing strategy – these two distinct ideas are difficult to disentangle using text mining)
 - **Market understanding** (building understanding of how the overseas market works and what the consumer wants)
 - **Conservatism** (target market's insularity to foreign products and services)
 - **Value proposition and differentiation** (defining their competitive advantage)
 - **Sales cycle** (including post-sales activities)
- **Operations and practicalities** – i.e. practical challenges that need to be surmounted to export successfully. The challenges were in decreasing order of observed frequency:
 - **Governance and planning**
 - **Presence and recruitment** (where *presence* is 'boots on the ground' in the overseas market)
 - **Resources** (both people and money)
 - **Culture and language**
 - **Banking and tax**
 - **Exchange rate.**

Figure 4-1 shows the frequencies (in percentages) with which the challenges were encountered or mentioned in the game-plans. The five most commonly reported challenges were:

- brand awareness
- partners and channels.
- competition
- market understanding
- cost and pricing.

Figure 4-1 Challenges ranked from most to least commonly reported



In short, our results suggest that many exporting firms face difficulty in building the profile of their brands. In addition, exporting firms’ route to the destination market often passes through some intermediaries such as retailers and distributors rather than directly to the end consumers. It is common for firms to use partnerships and other suitable channels to create a stronger market presence. This challenge is particularly problematic for firms who are new to the market and have not had the opportunity to establish overseas contacts and networks. The fierce international competition is very different to that in the small New Zealand domestic market. Other researchers also report that strong overseas competition is one of the most common difficulties reported by exporting firms (Smith and Garden, 2020; Sanderson, 2016).

These results were consistent with the insights from NZTE’s international offices (Box 4.1).

The anonymous case studies that follow illustrate the challenges listed above. The words highlighted in bold are challenges identified above (Figure 4-1).

Anonymous Case Study 1: Tech Company

Company A has been providing cybersecurity solutions for large enterprises and government-sector organisations in New Zealand and across the globes. The company is aggressively targeting its expansion into the US market.

The demand for cybersecurity solutions is huge, but the supply of cybersecurity solutions and services is strikingly large too. The company has faced fierce **competition** in the American market, from incumbents with deep pockets or from start-up vendors.

Because the product can be vital to national security, the company has also faced issues in regulation compliance (**regulation and certification**) and geopolitical (**government and politics**). Any adoption of technology or critical infrastructure on which military security, economic security and cultural security rely heavily, is likely to attract heavy regulation. Host authorities carefully scrutinise suppliers' right of access to the market (**market access**).

The company has identified the government sector and blue chip companies as its target market, which limits the range of **partners and channels**. Cyber security specialists with sales experience are in high demand. Not only has the company had a tough time finding the right talent, but it also has to compete with other businesses to hire them (**presence and recruitment**).

Anonymous Case Study 2: F&B Company

Company B is a global supplier of premium functional ingredients and speciality products for leading brand marketers and food manufacturers. The business has decided that it should concentrate on growth in Asian markets, particularly in China. The company has restructured their international growth strategy to better address the China market.

The products are not common in the culinary tradition of Asian countries (**market understanding**), and the Chinese consumers are hesitant to try them (**conservatism**). The company had to invest heavily on marketing to stimulate brand recognition (**brand awareness**), and to educate the consumers and manufacturers alike of the novel products. The company also faced pricing issue (**cost and pricing**) in the market with their premium ingredients. Their prices are higher than those of local suppliers or other importers.

The company has local presence with a relatively small salesforce to expand in the market (**resources**). Since most products offered by the company are made-to-order, there were frequent requirements of new importation certificates and permits from the Chinese food regulatory authority (**regulation and certification**).

Anonymous Case Study 3: Manufacturing Company

Company C designs and manufactures machinery components for the manufacturing industry in New Zealand. The company decided to go international and identified Australia as its key destination market.

The company recognised the value of hiring a global sales manager with relevant industry knowledge and experience. It recruited a global sales manager to help explore the market and develop its international growth strategy (**recruitment**). This process is still in its early stage, and the company has yet to define its **value proposition** and product **differentiation**. The company has commissioned research to gain a better understanding of potential sectors, and to validate the scale of the market opportunity in Australia (**market understanding**).

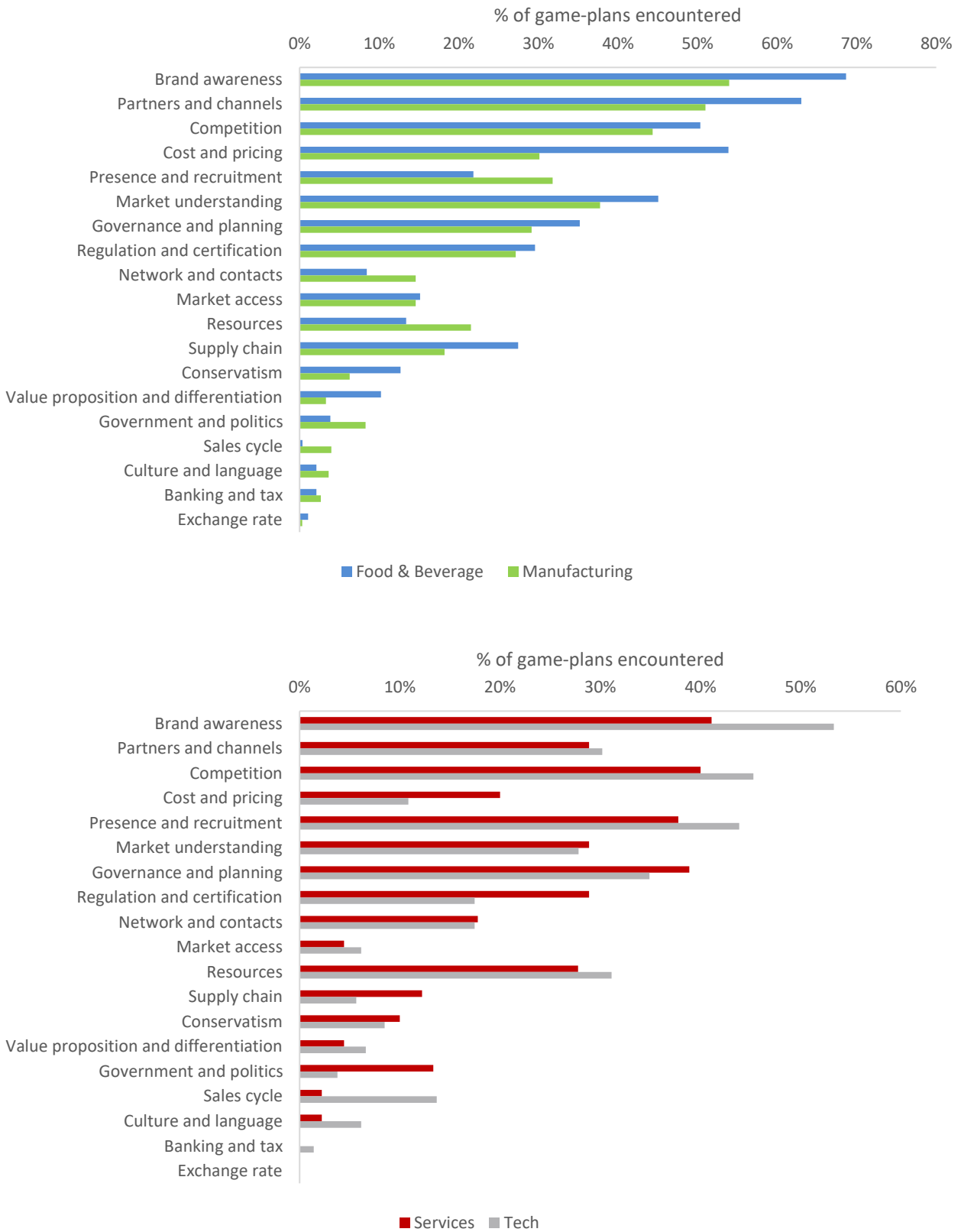
The company is new to the Australian market and requires support on **networks and contacts**.

The remainder of this section discusses the challenges by industry, firm revenue, and destination market.

Industry

Figure 4-2 shows the challenges faced by F700 firms, broken down by NZTE’s four industry segments. The challenges are sorted in decreasing order of importance as encountered or mentioned in the game-plans.

Figure 4-2 Challenges by industry (as defined by NZTE)



As can be seen in Figure 4-2,

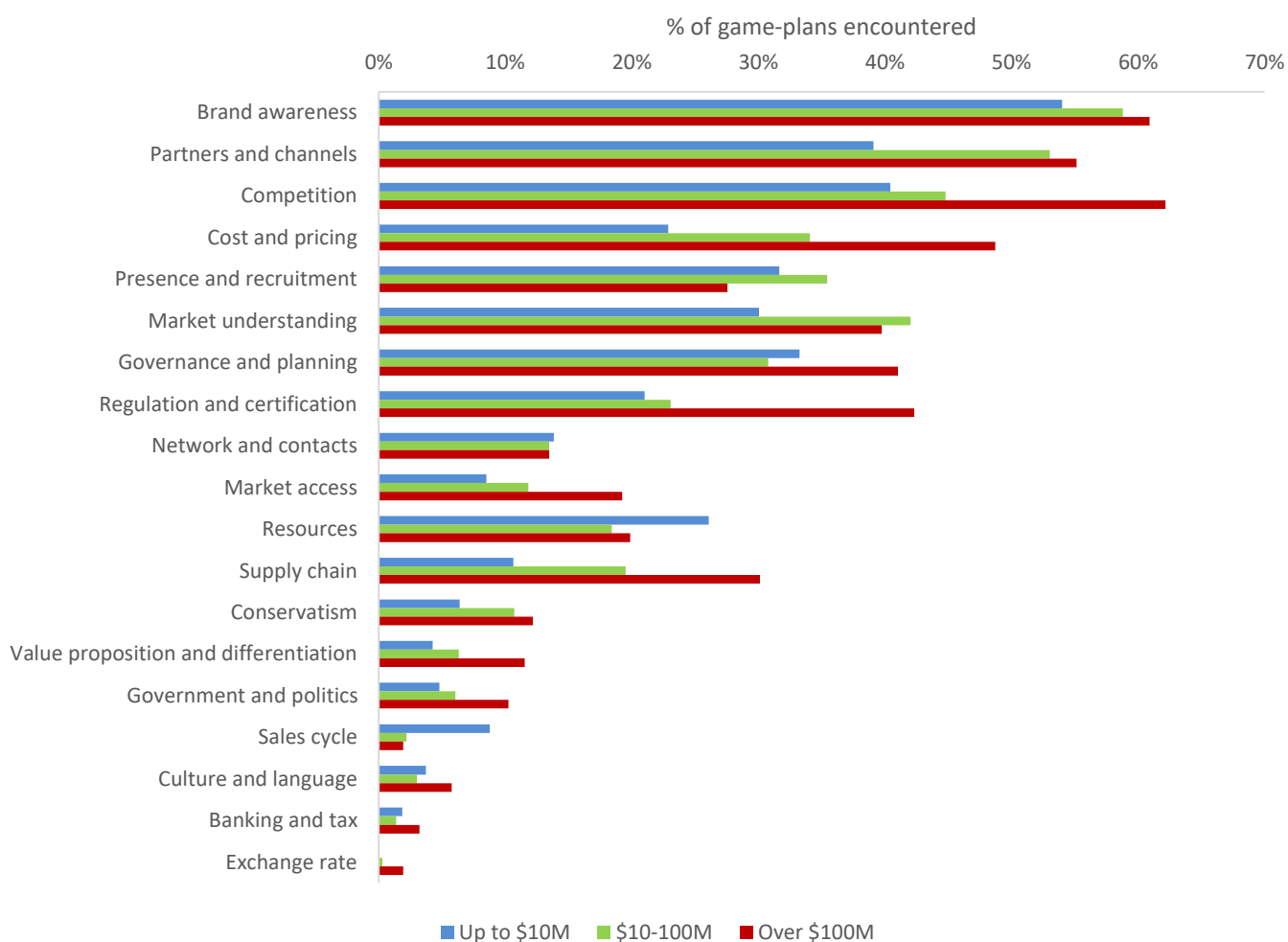
- **Manufacturing** firms faced most challenges (with highest percentages) in *brand awareness, partners and channels* and *competition*.
- **F&B** firms faced most challenges in *brand awareness, partners and channels* and *cost and pricing*. Consumers in this industry can be sensitive to prices.
- **Services** and **tech** firms faced most challenges in *brand awareness, competition* and *presence and recruitment*. Technical specialists are in great demand in these industries, particularly in tech industry. Firms often need to compete in getting the best workers. The need to offer after-sales services further exacerbates the recruitment issue, where staff with local knowledge and presence are required.
- *Brand awareness* is the overriding main challenges faced by all industries but the second and third ranked challenges differed, reflecting the differences of products and services sold.

Firm size

In this section, we provide a simplified overview of the challenges by firms' annual total revenue. Further analysis by full-time equivalent (FTE) is in Appendix A.1.

Low-revenue (total revenue of <\$10 million), medium-revenue (\$10 million-\$100 million) and high-revenue (>\$100 million) firms face similar main challenges as shown in Figure 4-1. High-revenue firms ranked *competition* as the most mentioned challenges while low-revenue firms ranked *brand awareness* as the main challenges.

Figure 4-3 Challenges by firm total revenue



We see similar trends in terms of firm size as measured by FTEs (Figure A.1).

Destination markets

Figure 4-4 and Figure 4-5 identify the key challenges reported by F700 firms, organised by the destination markets. Figure 4-4 shows the challenges of the main exporting regions: Australia, China and Taiwan and North America (USA and Canada). The three main challenges faced by firms targeting Australia were *brand awareness*, *partners and channels* and *competition*. These are slightly different (in terms of rankings) to firms targeting North America where the main challenges were *brand awareness*, *competition* and *partners and channels*. Firms targeting China and Taiwan reported facing challenges in *brand awareness*, *partners and channels* and *cost and pricing*. Similar to the analysis by industry, *brand awareness* is the dominant main challenges faced by firms targeting different markets but the second and third ranked challenges differed, reflecting the differences in products and services sold in overseas markets.

Figure 4-4 Challenges by destination market (Top three regions)

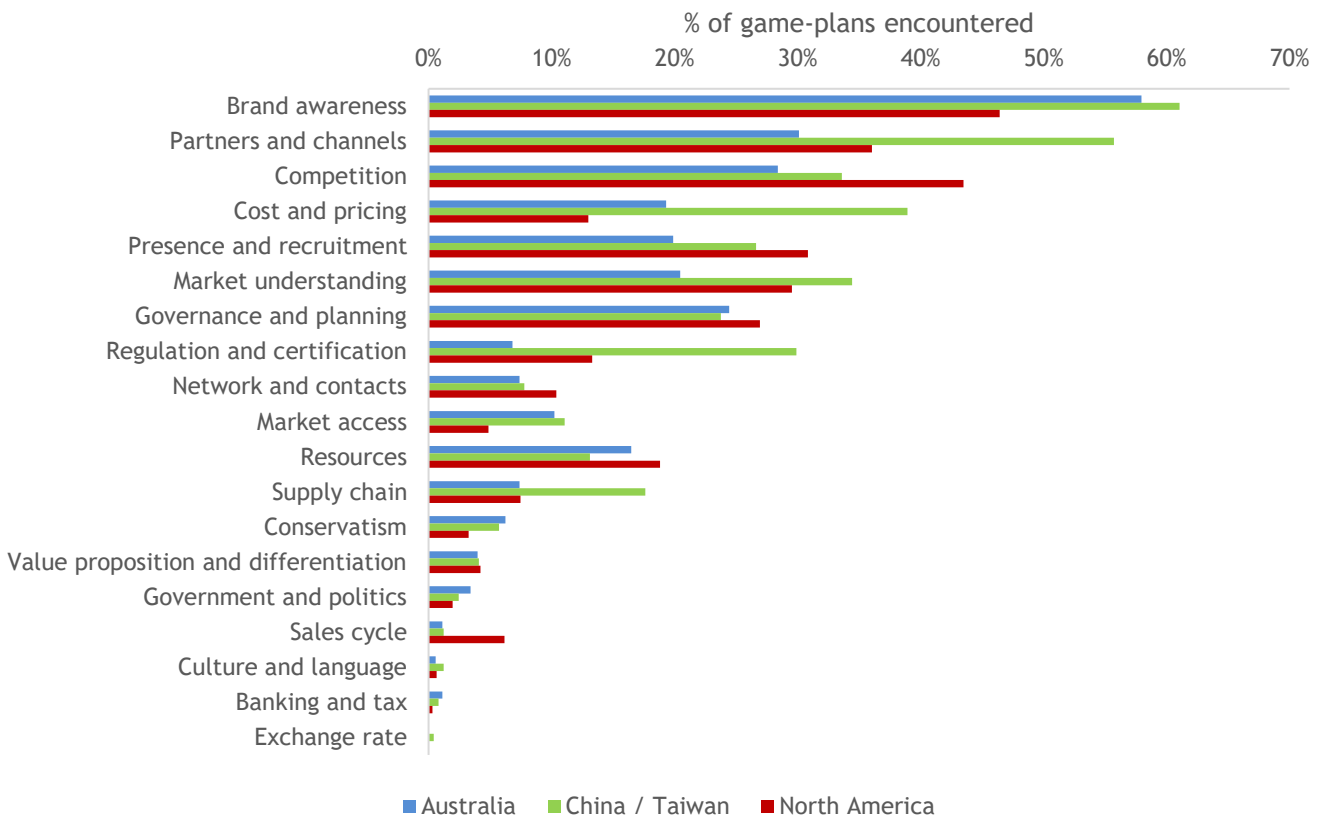
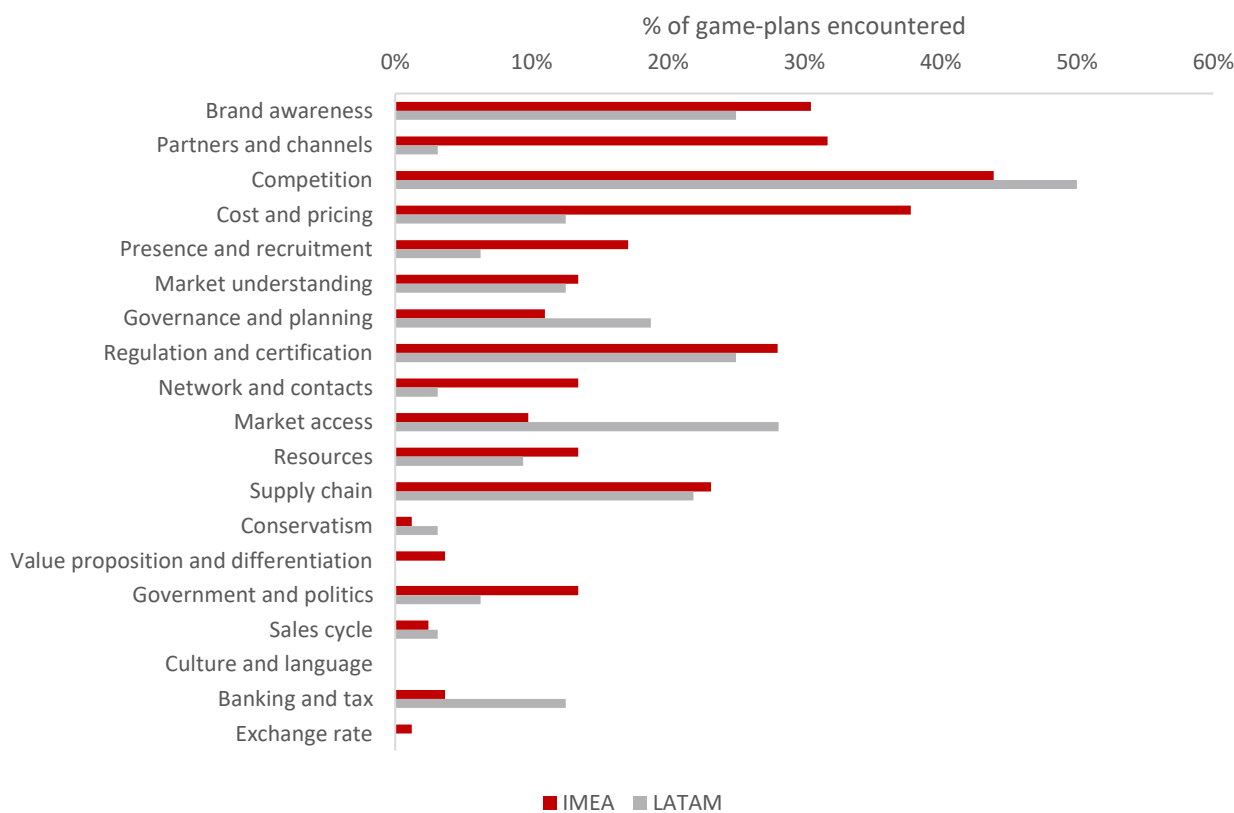
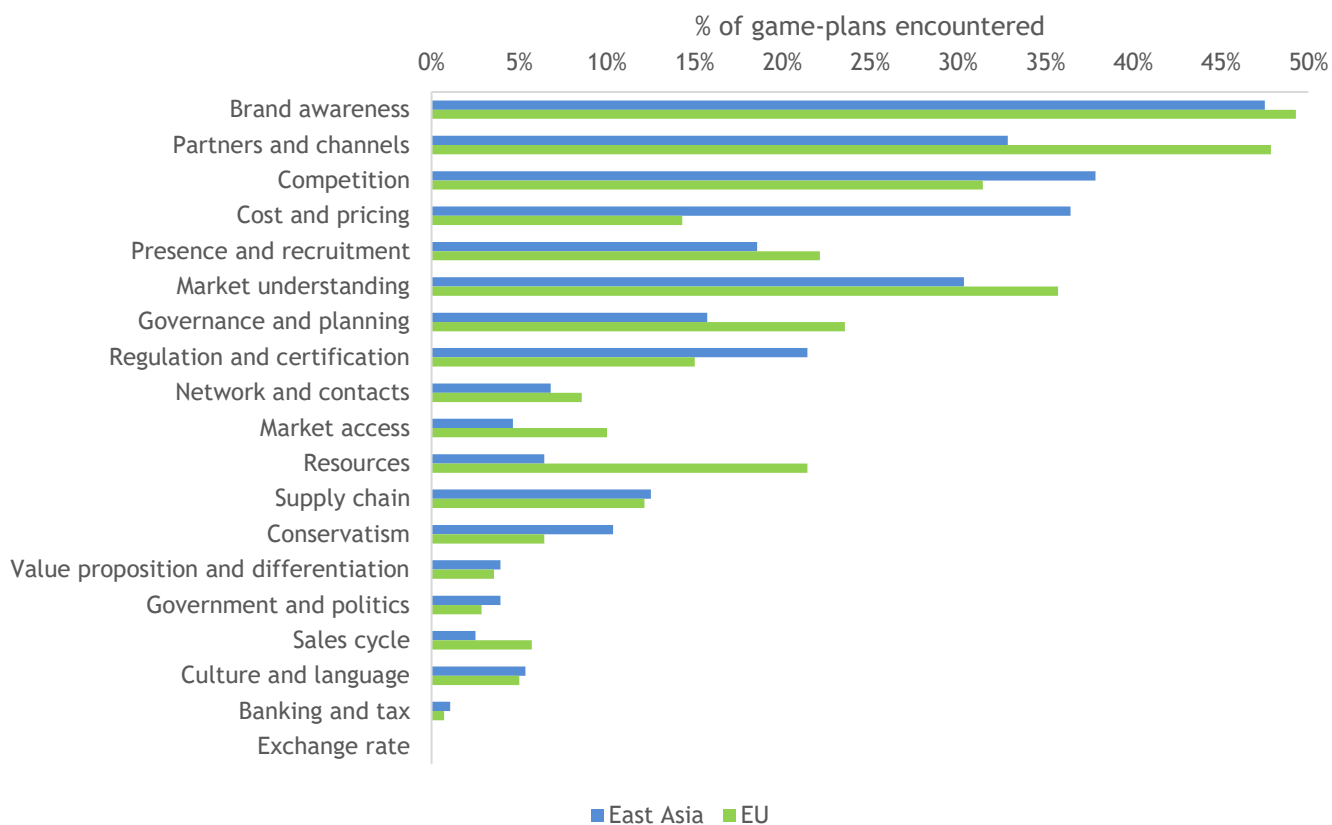


Figure 4-5 Challenges by destination market (Other regions)



Challenges faced by firms exporting to other regions shown in Figure 4-5 are largely similar to the top three main regions with some differences in rankings. For **East Asian** markets, the main challenges identified were *brand awareness*, *competition* and *cost and pricing*. In **EU** markets (including the UK), the key challenges were *brand awareness*, *partners and channels* and *market understanding*. For firm targeting **Indian, Middle East and African**

(IMEA) markets, the key challenges were *competition, cost and pricing* and *partners and channels*. Finally, in **Latin American (LATAM)** markets, the leading challenges were *competition, market access* and *regulation and certification*.

Interpreting the results

The diversity of challenges identified by F700 firms illustrate the nuances between export markets. As part of its mandate to support New Zealand firms successfully export, NZTE maintains skilled staff across the globe who understand specific international and product markets and can help New Zealand firms better understand and navigate those markets. Comments from some of these NZTE's international offices highlight the nuances between individual markets, and how New Zealand firms need to adjust (Box 4.1).

Box 4.1 Insights from NZTE's international offices on trading in overseas markets

United States

Many New Zealand firms and businesspeople think that the US will be culturally and economically the same as us, because of our common language. But nothing could be further from the truth. While New Zealand tends to be a word-of-mouth market, North America is fiercely competitive with many layers wide and deep. To be successful, firms need the patience and willingness to invest in the knowledge, resources and strategy needed to build credibility and customer awareness in a saturated market with many established brands that fiercely compete. It makes sense therefore that the top three challenges identified were presence and recruitment, governance and planning and network and contacts. All sums up to having a coherent market entry strategy versus more opportunistic approach.

Many of the practices that New Zealand firms use at home simply don't cut it in the US. Succeeding in the US is about the ability to scale across a huge geography, time zones and population. American resellers and distributors expect not just to be well-remunerated, but also to be fully supported through proactive engagement by their Kiwi partners. Number 8 fencing wire or one-size-fits-all approaches won't work. The number one thing that gets Kiwi exporters in the US door is their ability to customize/make bespoke which US and European players will not do!!!

Australia

Australia plays a crucial role in the development of many NZ exporters' capabilities to understand what it takes to be successful internationally. NZ exporters often assume that the Australian market operates the same way as New Zealand. Just because something sells well in the NZ market it cannot be taken for granted that Australia will provide the same opportunity. In reality, exporting to Australia can be considerably more competitive and complex, with regulations and work practices that vary across the different states and territories. It is important, and can be very challenging for NZ exporters, to develop a proper understanding of the key areas with an Australian specific lens. By that, we mean looking to understand Australian-specific market conditions and regulatory structures that affect the exporters' product or service. Four key areas include, the firm's brand value, their product or service value proposition, the capital required to establish, and what might be their best in-market operating structure that provides not only the desired sales growth but also the best profitability outcome. Often exporters don't understand that it is crucial that these four aspects are validated in market before they enter, yet they go ahead and wonder why they don't do well.

We have a large number of NZ firms that have been engaged with the Australian market for many, many years. Most are focused on the east coast and the states of Queensland, NSW and Victoria. Establishing a profitable, sustainable business in Australia can help firms springboard to other markets. However, firms often look to enter other markets without fully capturing the opportunities that Australia can provide and they lose their focus. In other words they "run away" to other markets and leave behind "value" on the table.

China

China is a dynamic market and the pace of change in consumer trends is faster than more mature developed markets. For many New Zealand exporters, the Chinese consumer can feel somewhat

fickle, as the market has been flooded with new imported products over the past 10 years. What is trending today can quickly be deemed old tomorrow. Getting cut through and telling a compelling story about the value of a New Zealand firm's products, can be a challenging and expensive exercise.

Just about every brand wants to be in China and domestic capability has expanded quickly. There is competition at all price points, including at the premium and super-premium levels where New Zealand companies have typically operated, targeting affluent customers.

China cannot be thought of as one consumer market – there is considerable diversity across regions, and between cities. This diversity extends to consumer tastes and purchasing power, the retail and e-commerce landscape, logistics capability and even the application of regulations. New Zealand firms, therefore, often have to work with multiple distributors and partners to cover their target markets.

Source: Personal communications with NZTE staff

4.2 What do firms do in response to these challenges?

This section sets out the activities undertaken by firms in response to the challenges set out in the previous section.

The activities found were divided into six broad categories (noting that there are some grey areas, and some activities could be said to fall into more than one category):

- **Interaction** with other organisations and people (e.g. meetings and introductions, dealing with retailers and market partners, networking and events)
- **In-market** activity (e.g. marketing, digital commerce/e-commerce)
- **Thinking and planning** (e.g. consumer intelligence, market research, strategic planning)
- **Getting to the consumer** (dealing with regulation and compliance, tariffs and trade agreements)
- **Practicalities** (e.g. recruitment, training, capital raising, various professional services)
- **The offering** (i.e. working on the products and services they are selling, including the price point(s)).

Table 4.1 defines each activity in more detail.

Table 4.1 Exporting firm activities

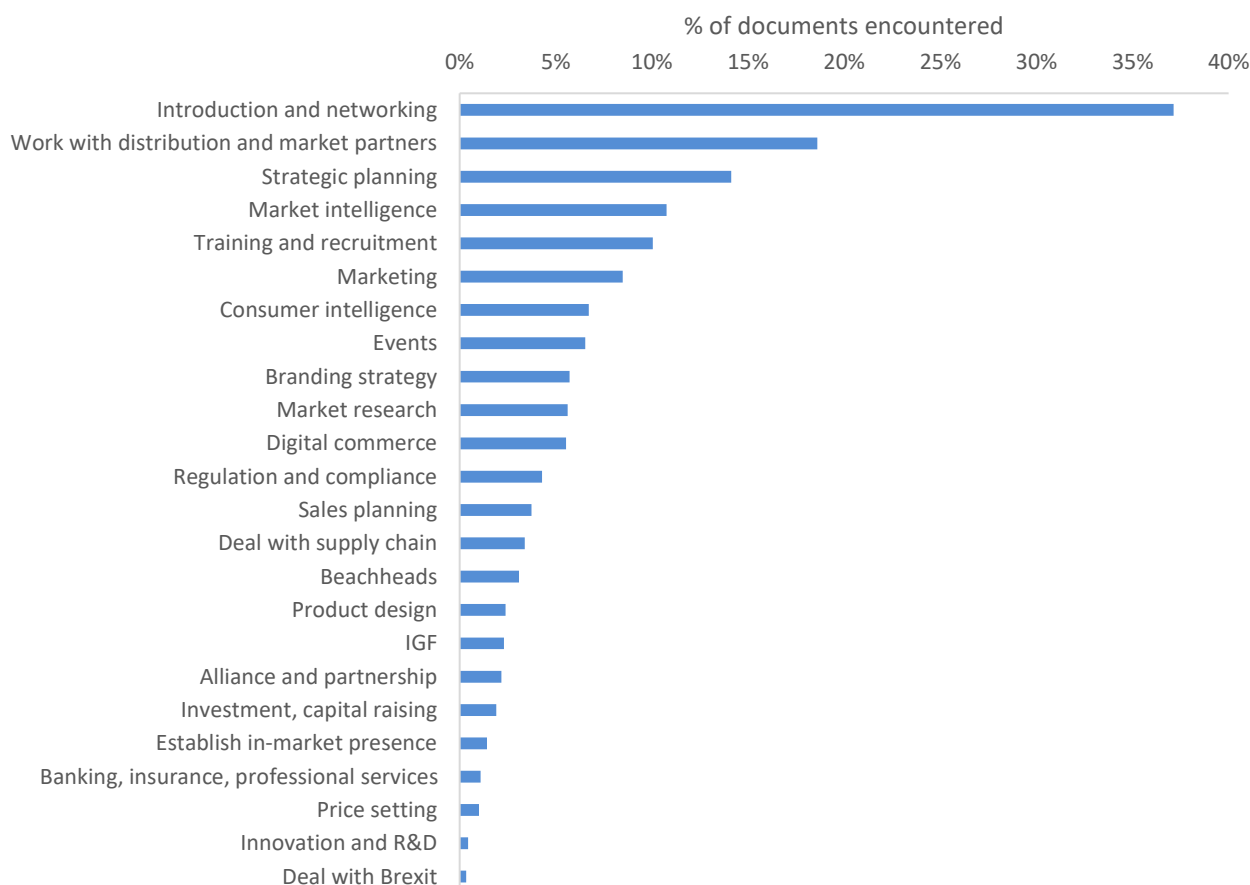
Categories	Activities	Description
Thinking & planning	Consumer intelligence	Research that delivers insights about the brand, products & competitors
	Market intelligence	Research that delivers insights about the destination market.
	Market research	Research conducted with potential consumers to determine the viability of a new product or service
	Sales planning	Activities to drive more sales
	Strategic planning	Activities to ensure employees and stakeholders are working towards common goals and/or establish agreement around intended outcomes.
	Beachheads	NZTE-subsidised advice & support from private sector consultants with expertise in exporting or entrepreneurship
In-market	Digital commerce	Establishing digital channels such as the internet and mobile network to buy or sell products and services.
	Marketing	Promoting a product or service to raise its brand profile and increase sales.

	Branding	Creating awareness, loyalty and advocacy for a product or service, or a business.
	Lead generation	Stimulating interest in a product or service to develop a sales pipeline
Getting to the consumer	Supply chain	Working on improving the distribution of a product or service, or its inputs.
	Regulation	Activities to ensure the firm's products or services meet market access conditions (eg, quotas, tariffs, duties etc).
	Compliance	Activities to ensure the firm's products or services adhere to the laws, rules and requirements of the destination markets.
	Dealing with Brexit	Making changes in way the business operates in the UK (or between the UK and EU) to suit the post-Brexit environment.
Interactions	Introductions	Introductory meetings with potential buyers, sales intermediaries or official delegation members.
	Networking	Developing networks and contacts in destination markets who could assist with sales and expansion.
	Retailers	Identifying merchants in the destination market to sell directly to consumers.
	Alliances	Identifying and building alliances with other businesses to grow sales, share costs or otherwise improve performance.
	Events	Attending fairs, expositions, conferences or trade shows.
The offering	Product design	Designing (or refining the design of) the product to better suit the destination market or target consumers.
	Innovation	Developing and applying new ideas to gain competitive advantage (eg, process, product or marketing innovations).
	R&D	Funding, or directly undertaking research and development
	Pricing	Developing pricing strategy for the destination market
Practicalities	Training	Identifying, supporting or delivering training of staff to achieve firm goals
	Recruitment	Hiring new staff to meet knowledge and skills gaps, respond to higher demand, or otherwise achieve firm goals
	In-market presence	Exploring launching or expanding physical retail stores in the destination market
	Capital raise	Getting help with raising capital
	International Growth Fund (IGF)	A co-investment between NZTE and the firm in selected international growth projects
	Investment	Finding suitable investors and negotiating investment terms and conditions
	Insurance	Obtaining guidance on insurance liabilities or finding a suitable insurance broker
	Professional services	Obtaining information on or access to professional services (eg, legal, accounting or financial advice).
Banking	Getting assistance with banking in destination markets and international payments	

Figure 4-6 ranks individual activities from most to least frequently observed. The most commonly observed activities are:

- introductions and networking (i.e. meetings and introductions, networking and events)
- working with distribution and market partners
- strategic planning
- market intelligence
- training and recruitment

Figure 4-6 Activities ranked from most to least commonly observed

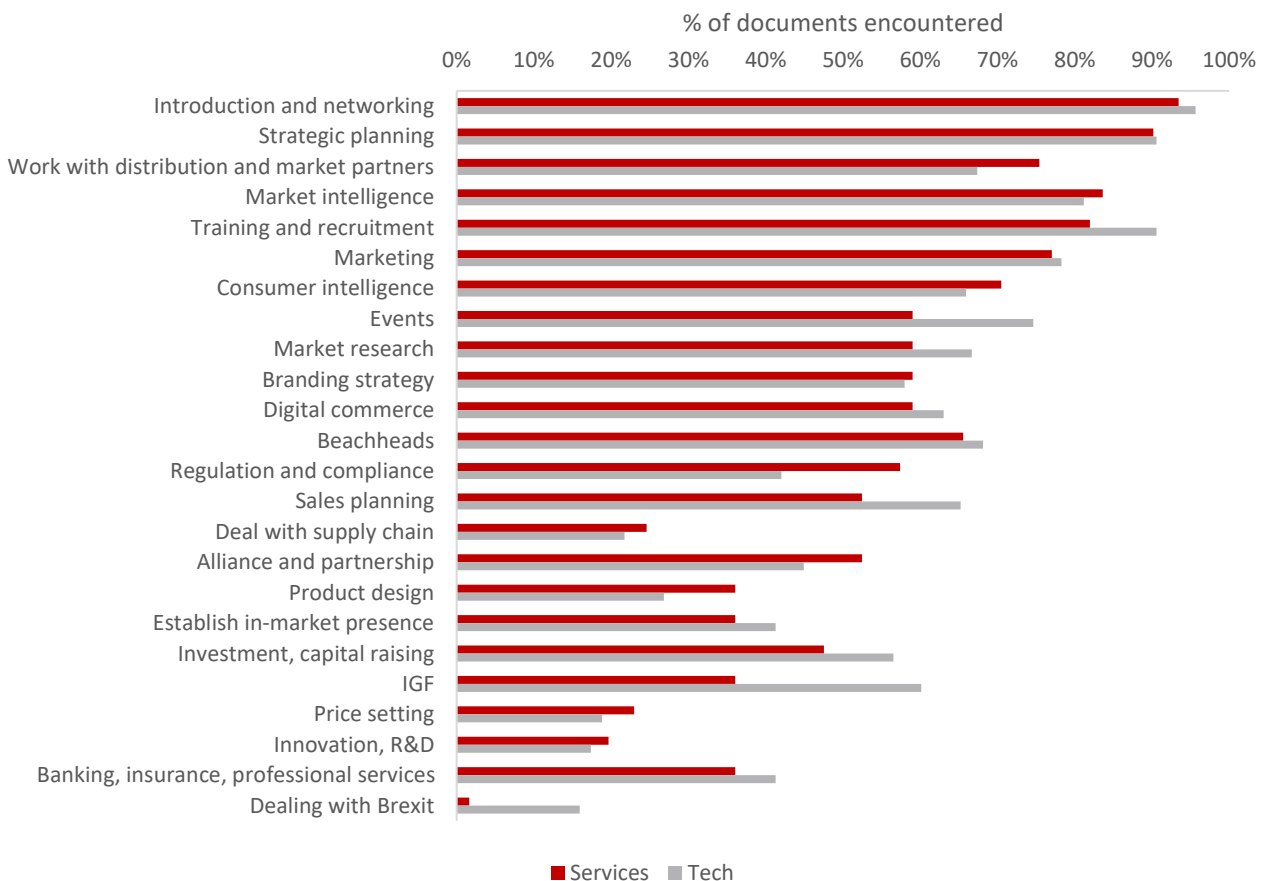
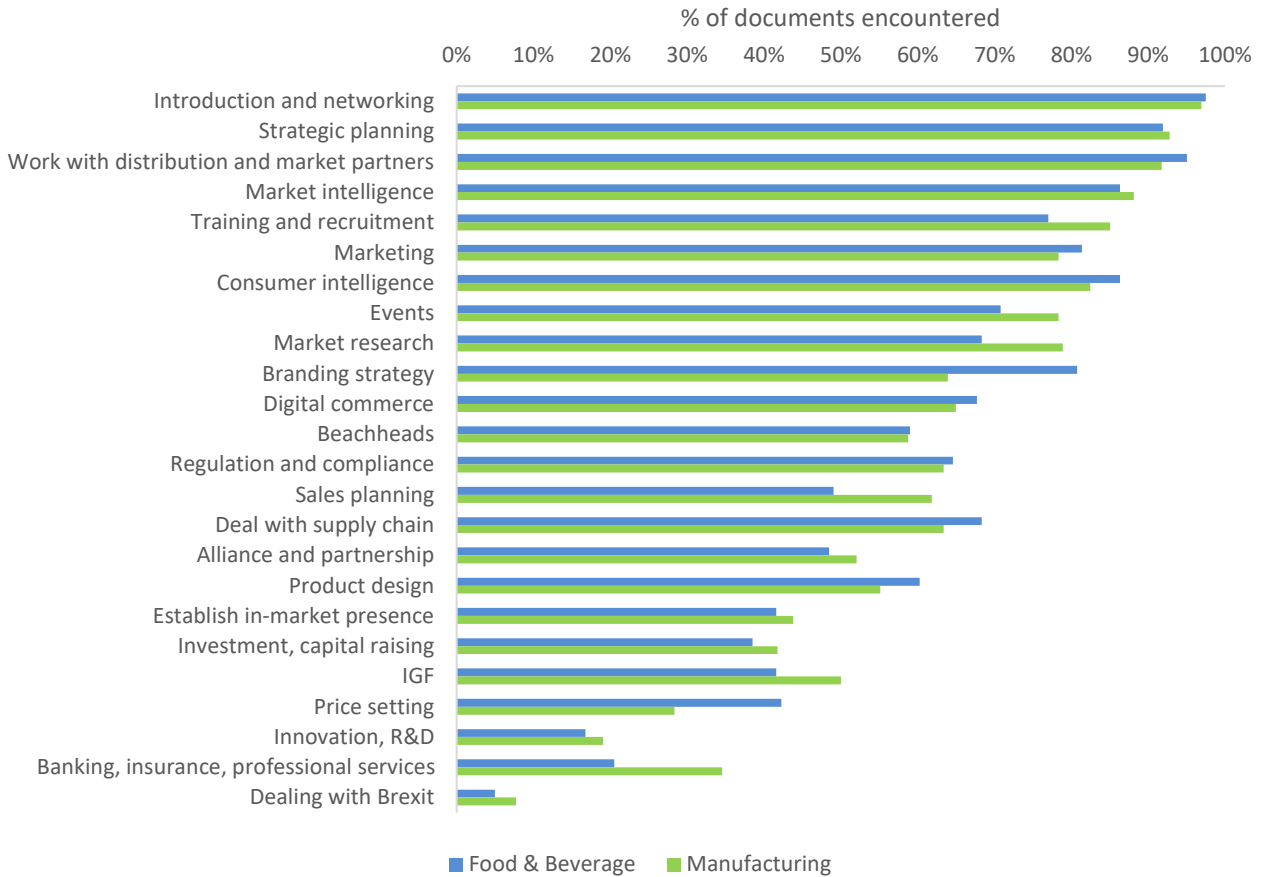


The remainder of this section discusses the activities by industry, firm size and destination markets.

Industry

F&B and **Manufacturing** firms most cited activities were *introduction and networking*, *work with distribution and market partners* and *strategic planning* (Figure 4-7). **Services** firms ranked *introduction and networking*, *strategic planning* and *market intelligence* as their main activities. Firms in **Tech** industry most cited activities were *introduction and networking*, *training and recruitment*, and *strategic planning*. *Introduction and networking* is the dominant main activity undertaken by firms in all industries but the second and third main activities differed, reflecting different challenges faced by firms in different industries. These activities were consistent with the challenges cited in the industries in section 4.1.

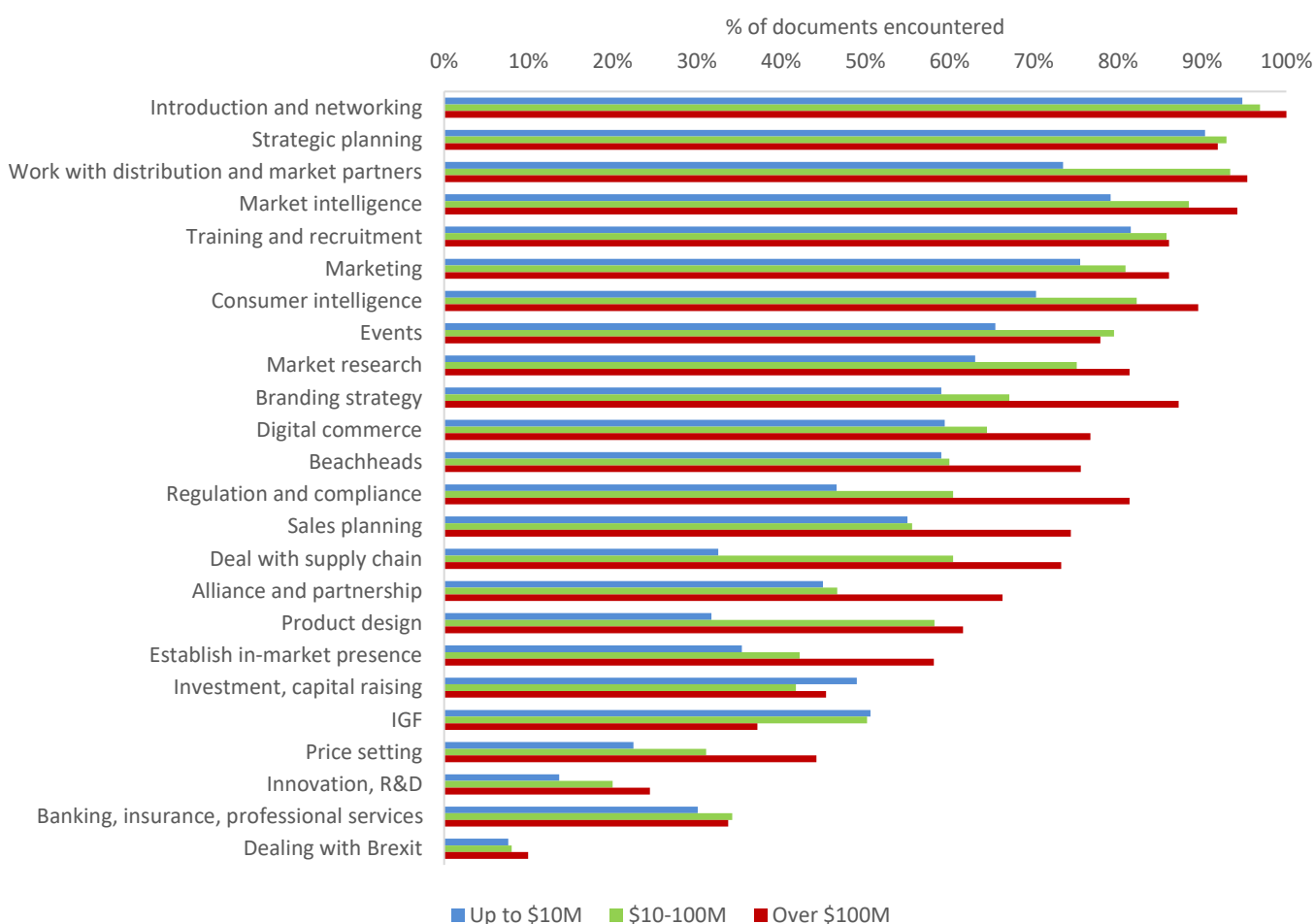
Figure 4-7 Activities by industry (as defined by NZTE)



Firm size

Figure 4-8 analyses firm activities by their total revenue.

Figure 4-8 Activities by total revenue



Firms with different total revenue ranked *introduction and networking* as the dominant main activity. In addition, high-revenue firms ranked *working with distribution and market partners* and *market intelligence* as their second and third activities while low-revenue firms ranked *strategic planning* and *training and recruitment*.

Similar patterns of activities were observed in terms of firm FTE numbers (Figure A.2).

Destination markets

Figure 4-9 and Figure 4-10 present firms' activities undertaken in response to their challenges by destination market.

Firms with different destination markets ranked *introduction and networking* as the dominant main activity. In addition, firms targeting Australia ranked *strategic planning* and *market intelligence* as their second and third main activities while firms targeting North America ranked *strategic planning* and *training and recruitment*. Firms targeting China and Taiwan ranked *working with distribution and market partners* and *strategic planning* as their second and third main activities.

Firms targeting East Asia and IMEA cited *working with distribution and market partners* and *market intelligence* as their second and third main activities. Firms targeting EU ranked *working with distribution and market partners* and *strategic planning* as their second and third main activities. Lastly, firms focusing on LATAM ranked *market intelligence* and *working with distribution and market partners* as their second and third main activities.

Figure 4-9 Activities by destination market (Top three regions)

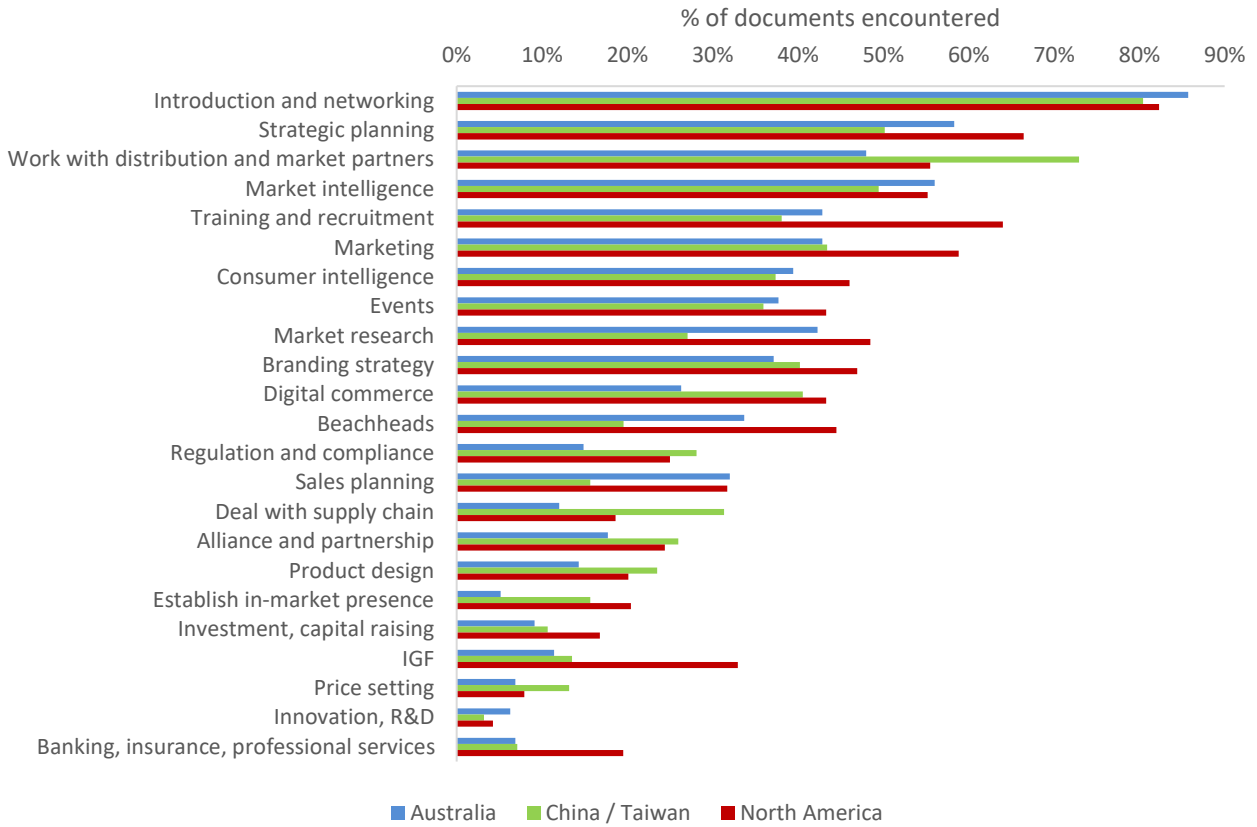
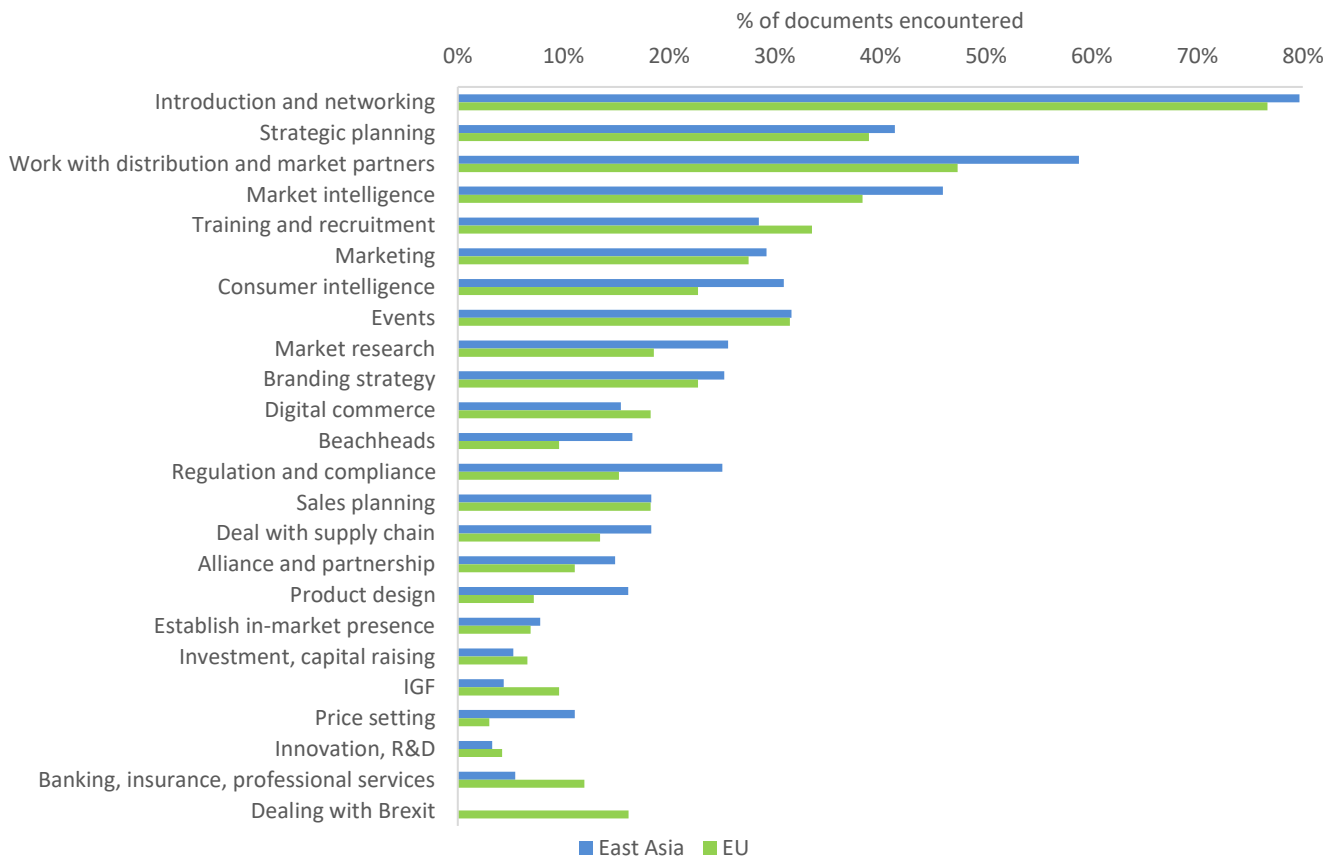
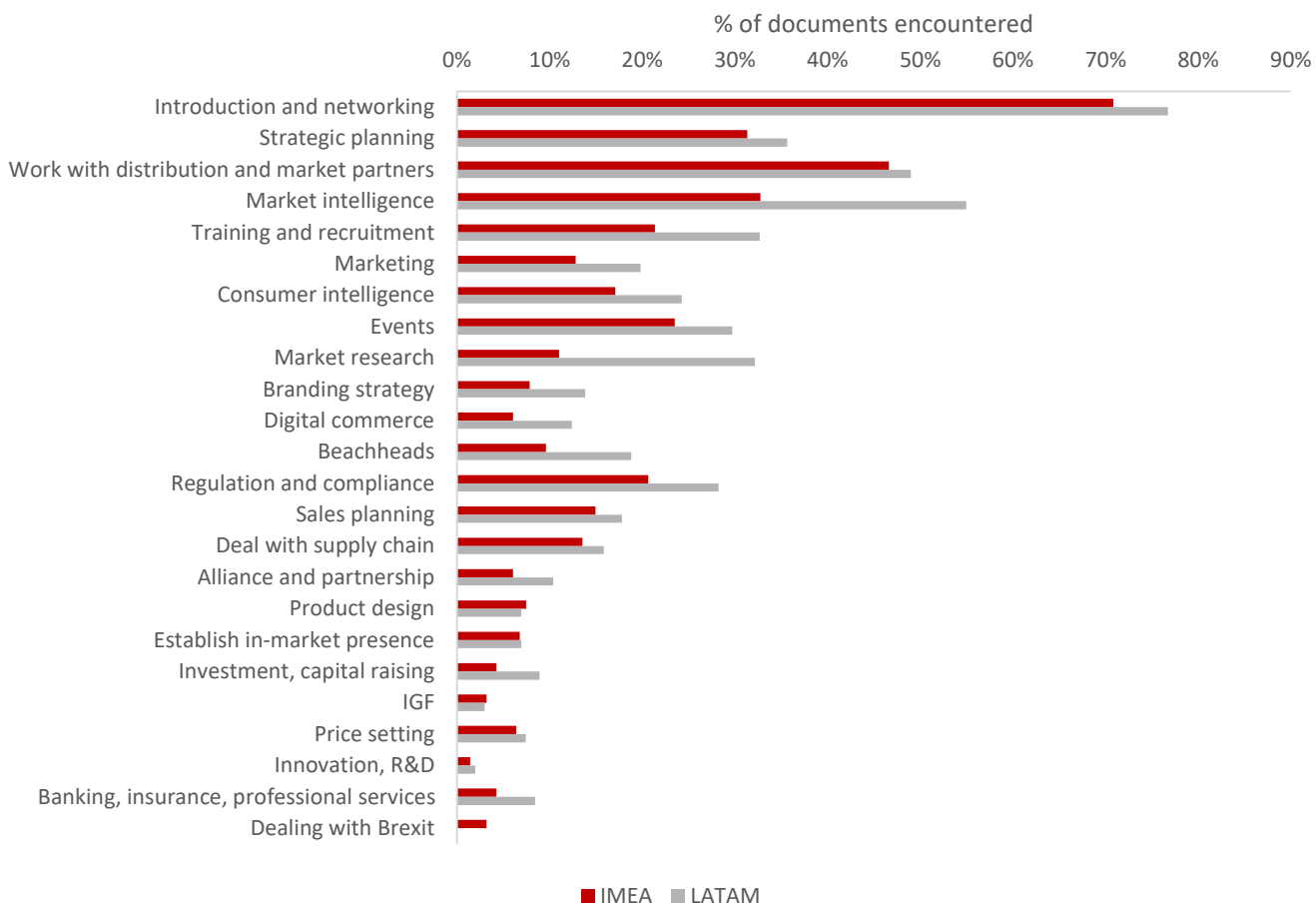


Figure 4-10 Activities by destination market (Other regions)





5 Conclusion

This paper presents descriptive text analysis of challenges New Zealand exporting firms faced and the activities firms conducted when faced with these challenges. The analysis is based on the text communications between NZTE and F700 firms from January 2015 to February 2020. This time period means that the firms faced these challenges before the economic disruption caused by Covid-19.

Challenges

In aggregate, the five most commonly reported challenges were improving *brand awareness*, *establishing partners and channels* (ie, funding suitable distributors and retailers), *dealing with strong competition*, *gaining market understanding and managing costs and pricing*. This result is similar to other research using different data.

Brand awareness was the overriding main challenge faced by all industries and main destination markets (Australia, China and Taiwan and North America) but the second and third ranked challenges differed, reflecting the differences in products and services sold and destination markets.

Manufacturing firms ranked *partners and channels* and *competition* as the second and third most important challenges while F&B firms ranked *partners and channels* and *cost and pricing* as their second and third most important challenge. Services and tech firms faced challenges in *competition* and *presence and recruitment*.

Firms targeting Australia cited *partners and channels* and *competition* as their second and third main challenges. The rankings were reversed for firms targeting North America where *competition* and *partners and channels* were their second and third main challenges. Firms targeting China and Taiwan reported facing challenges in *partners and channels* and *cost and pricing*.

High-revenue firms ranked *competition* as the main challenges while low-revenue firms ranked *brand awareness* as the main challenges.

Responses

The five most commonly reported activities taken by firms facing exporting challenges were *introduction and networking*, *working with distribution and market partners*, *strategic planning*, *market intelligence and training and recruitment*. These activities were consistent with the challenges cited in the game-plans.

Introduction and networking was the dominant main activity undertaken by firms in all industries, size and destination markets but the second and third main activities differed, reflecting different challenges faced by these firms.

In addition to the dominant main activity, F&B and manufacturing firms most cited activities were *working with distribution and market partners* and *strategic planning*. Services firms ranked *strategic planning* and *market intelligence* as their second and third main activities and firms in the Tech industry ranked *training and recruitment* and *strategic planning*. These activities were consistent with the challenges cited in the industries.

High-revenue firms ranked *working with distribution and market partners* and *market intelligence* as their second and third main activities while low-revenue firms ranked *strategic planning* and *training and recruitment*.

Firms targeting Australia ranked *strategic planning* and *market intelligence* as their second and third main activities while firms targeting North America ranked *strategic planning* and *training and recruitment*. Firms targeting China and Taiwan ranked *working with distribution and market partners* and *strategic planning* as second and third main activities.

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Appendix A Additional analysis

Figures below show the challenges and activities identified by F700 firms by FTE numbers.

Figure A.1 Challenges by firm FTE numbers

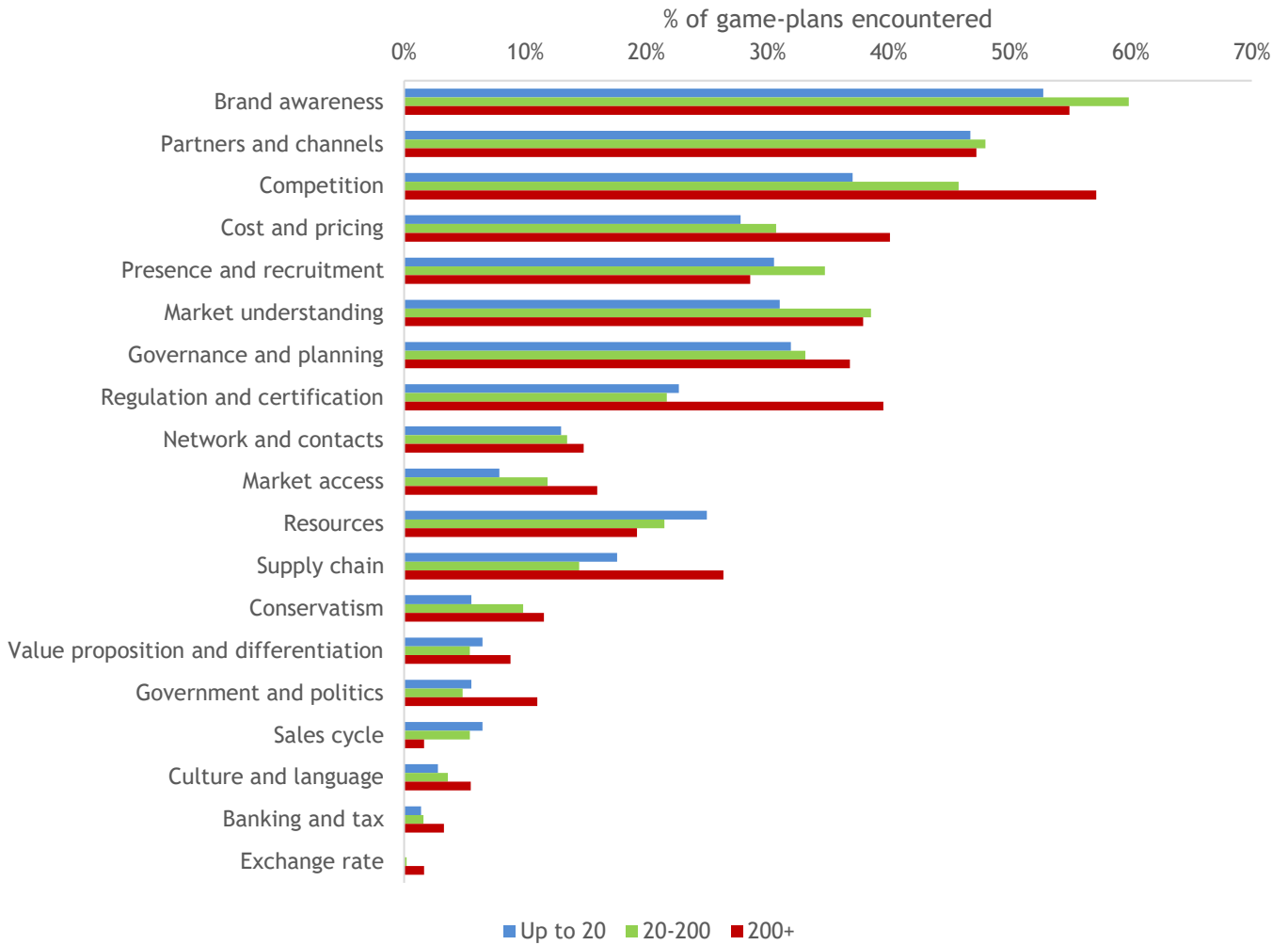


Figure A.2 Activities by firm FTE numbers

