

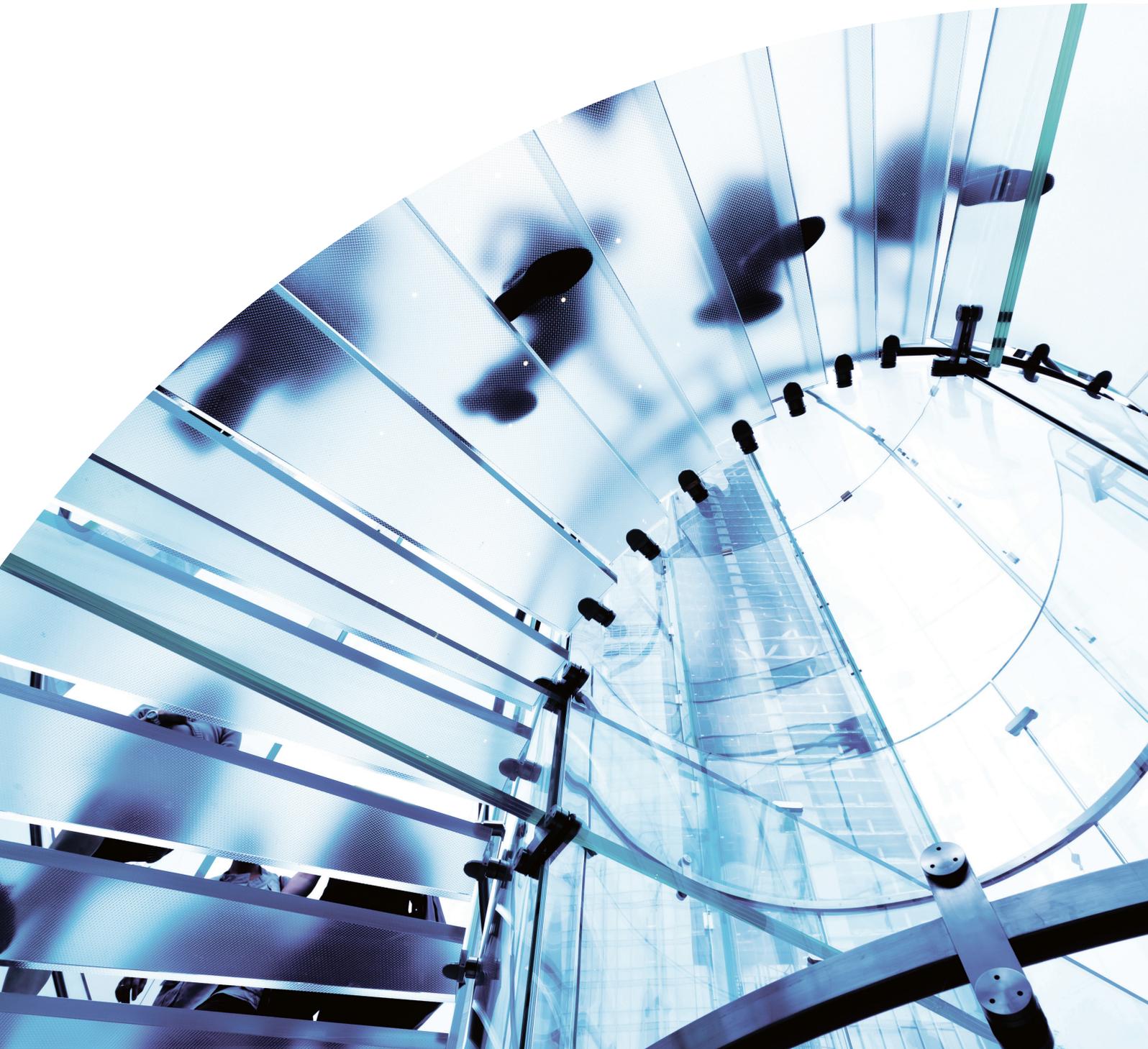


Grant Thornton

An instinct for growth™

The power and potential of the mid-size business

New Zealand mid-market report 2019



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Who is mid-size in a small economy?

What does New Zealand's mid-market look like? How is it performing, and why is this important?

The power and the potential of the mid-size business

New Zealand's mid-size businesses (MSBs) are a powerhouse of employment, growth and revenue. This sector of our economy is often overlooked as we focus on growing small businesses and celebrating the success of larger ones. They are the businesses that aren't big enough to sway regulators, yet are too big to generate the kind of enthusiasm so often seen for start-ups.

Our MSBs are the unsung heroes of New Zealand's economy, so this report explores their contribution, their performance, their challenges and their opportunities. At Grant Thornton, we know that there is power and potential for Kiwi mid-size businesses to accelerate their growth, but this can only be achieved through Government initiatives and a range of improvements by the businesses themselves. This report also includes recommendations to both Government and MSBs that should have a positive impact on NZ Inc's bottom line.

Over the past decade, the number of Kiwi MSBs has grown at a faster rate than small businesses; they have a lower mortality rate, and they are stable and significant employers.

Today's MSBs

Over the past decade, the number of Kiwi MSBs has grown at a faster rate than small businesses; they have a lower mortality rate, and they are stable and significant employers.

Grant Thornton in the United Kingdom and Australia have also reported on their respective mid-markets; like New Zealand, the number of businesses in their mid-markets is growing and they are significant employers. However, unlike Kiwi MSBs, the UK and Australian mid-markets have higher productivity per employee than small or large enterprises.

Although our mid-market businesses are not directly comparable relative to those operating in the UK and

Australian economies, these differences demonstrate that New Zealand MSBs are not performing as well as their overseas counterparts. This is a missed opportunity. Mid-size businesses play a crucial role in our economy, so to reach their full potential, they need support to improve management and production capability, and to increase productivity.

How do you define a mid-size business?

The definition of mid-size businesses varies from country to country. It's important to note that there is no official definition for a MSB in New Zealand. Across the world mid-size businesses tend to be defined as having between 20 and 200 employees. However, New Zealand has a much smaller economy and population than most comparable highly-developed market economies.

With this in mind, for the purposes of our research New Zealand's mid-size businesses have been defined as having revenue between \$5m and \$30m, and/or employing between 20 and 99 people.

The Financial Reporting Act 2013 defines a large entity as one where 'the total revenue of the entity and its subsidiaries (if any) exceeds \$30 million'. MBIE defines a small business as one that employs fewer than 19 people, implying that a medium sized business employs 20 or more. The Australian Bureau of Statistics defines an MSB as having 20 to 200 employees; Grant Thornton Australia adds a revenue definition: turnover of \$5 million to \$250 million annually. Australia's population is five times as large as New Zealand's and it's GDP is over six times as large as ours.

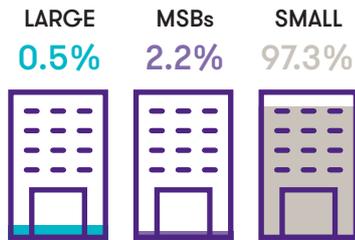
We're by no means setting this definition in stone – possibly the 'and/or' should just be an 'and'. We recommend that business groups and Government, including MBIE and Statistics NZ, agree a definition of a Kiwi mid-size business so that we can all promote and support the sector more effectively. Only by defining some parameters can we effectively measure and track the success of MSBs.

Statshot: New Zealand's mid-market landscape

For the purposes of this study, Kiwi mid-size businesses (MSBs) have total annual income between \$5 million and \$30 million and/or between 20 and 99 employees.



New Zealand's mid-market at a glance



10,698 MSBs in New Zealand compared to **2,460** large and **471,021** small enterprises



65% of MSBs are 11 years or older



people were employed by MSBs in 2018

The number of MSBs is growing



MSBs



LARGE



SMALL

GROWTH 2014 - 2018



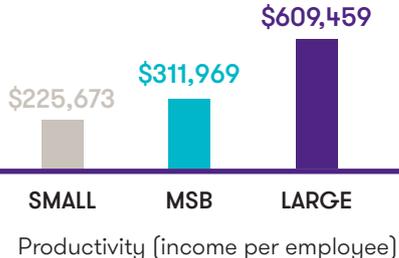
Total income growth in 2018



MSBs' total income in 2018: \$117 billion



MSBs contributed \$35 billion to GDP in 2017



About 27% of MSBs exported in 2018



of New Zealand MSBs have international operations



Rapid growth in MSBs in recent years

The number of Kiwi MSBs has been increasing at a faster rate than small businesses; total income and employment is also growing.



10,698

The MSB population grew 33% from 2014 to 2018 and represents just over 2% of all enterprises in New Zealand.



\$117 billion

The annual income of MSBs has increased by 34% since 2014. MSBs account for 17% of total enterprise income.



376,374

Employment in the MSB sector grew by 24% from 2014 to 2018 (5% in 2017-18).

“We know from research around the world that MSBs tend to be the forgotten middle child in every economy, and New Zealand is no exception. They contribute an enormous amount to our economy with very little targeted support or recognition.”

Russell Moore
National Managing Partner
Grant Thornton New Zealand

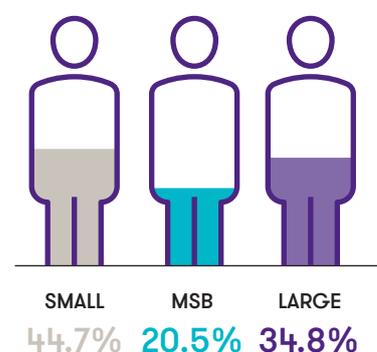
Number of companies



Share of total income



Share of employment



Source: Statistics New Zealand Annual Enterprise Survey 2018



Local, stable and varied

How mature are New Zealand MSBs, who owns them and what do they do?

Our MSBs are predominantly New Zealand registered companies, with long lifespans.

MSBs operate mostly in wholesale trade, construction, retail trade and manufacturing.



11+

65% of MSBs are more than 11 years old.



54%

More than half of MSBs are in the wholesale trade, construction, retail trade or manufacturing sectors.



Maturity

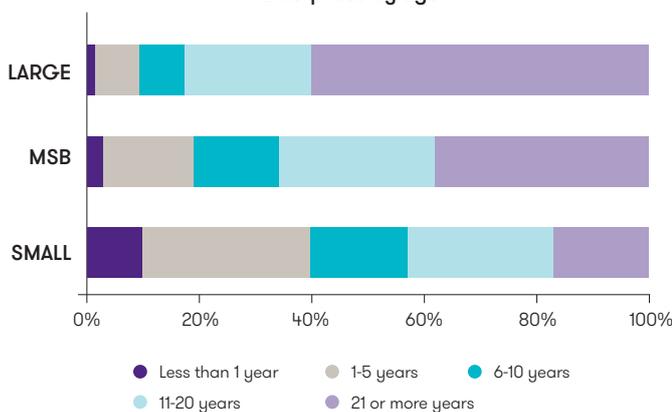
About 38% of MSBs are 21 years or older and 42% of MSBs in the manufacturing sector are older than 21 years.



78%

The majority of New Zealand MSBs are registered limited liability companies. There are 927 incorporated societies and charitable trusts.

Enterprises by age

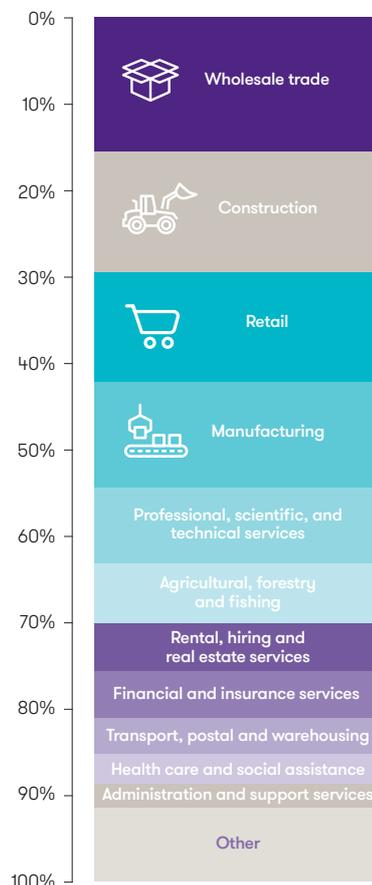


Source: Statistics New Zealand Business Demography data 2018

“Our MSBs have proven they can last throughout economic downturns and grow in the boom times – they have the potential to do even more for our economy.”

Stacey Davies
Partner, Business Advisory Services
Grant Thornton New Zealand

MSBs by sector



Source: Statistics New Zealand Annual Enterprise Survey 2018



Mid-size businesses, super-size employment growth

New Zealand's mid-market punches above its weight in employment growth.

Employment growth was strongest in the MSB sector over the five years to 2018, outperforming growth by small and large size businesses.



376,374

MSBs provide 21% of employment in New Zealand.



86,121

MSBs provided 31% of new jobs created throughout the country between 2014 and 2018.



24%

MSBs consistently added new jobs during this period, growing employment in the mid-size business sector by 24%, compared with overall growth of 13.5%.



35

MSBs employ an average of 35 people, compared with about 1.7 per small enterprise and 260 per large enterprise.

“When you’ve got the right people in the right seats, who feel they can make a difference and have the chance to make a difference, you’re unstoppable.”

John Managh
CEO, Wilderness Motorhomes

“We have an amazing talent pool. You’re as good as your team, and we are very fortunate to attract and retain amazing talent.”

Al Keating
CEO, Coffee Supreme

Employment growth 2014-18



24.4%

MSB



8.9%

SMALL



13.9%

LARGE

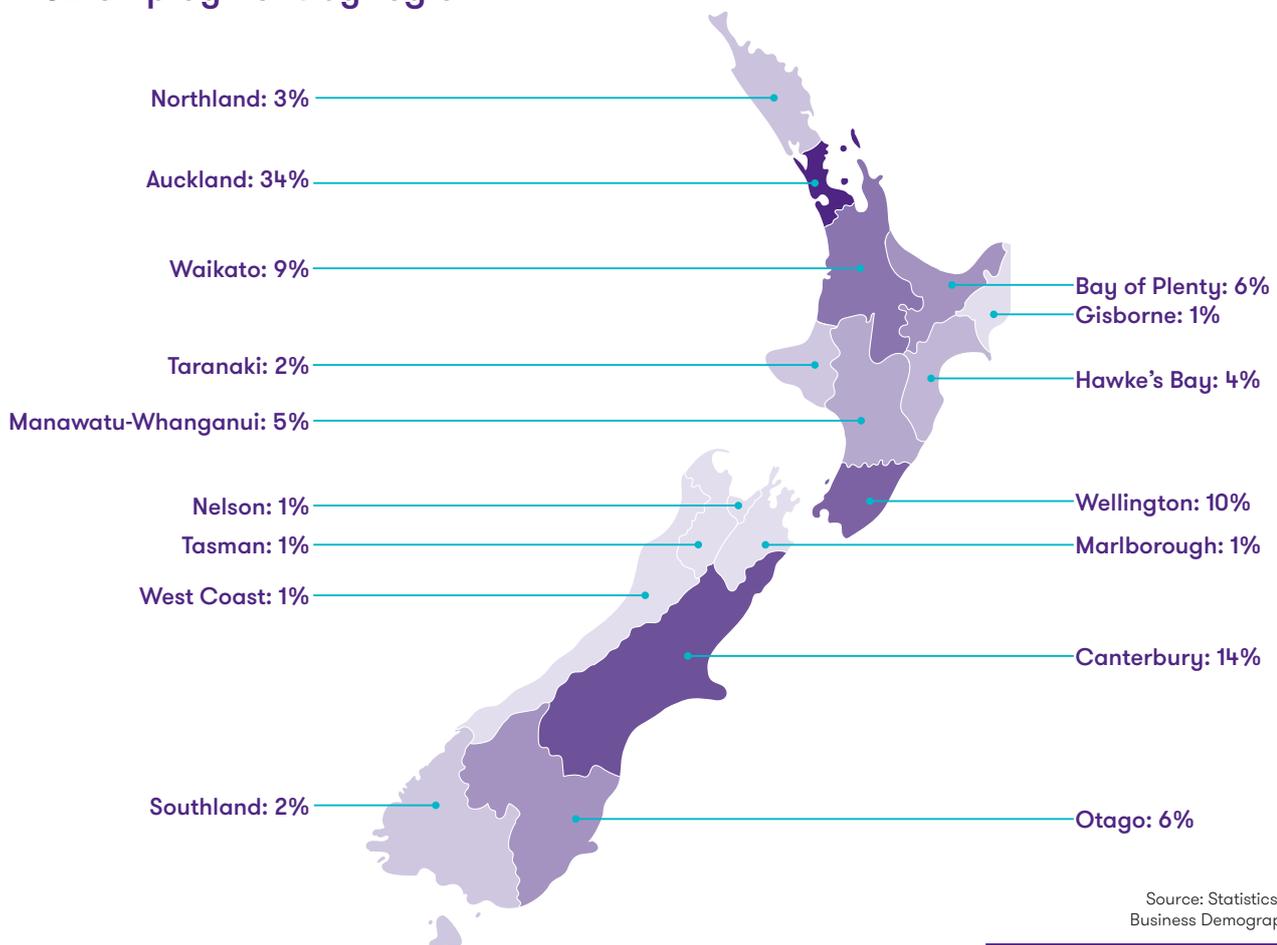
Source: Statistics New Zealand Annual Enterprise Survey 2018



“We pay our people really well – everyone’s substantially above the living wage, even if they’re doing straightforward work that would traditionally pay below that level.”

James Adair
Director, Johnson and Couzins

MSB employment by region



Source: Statistics New Zealand
Business Demography data 2018



Adding value, growing income

MSBs are helping spur New Zealand growth.

The mid-market is making a positive contribution to economic growth. MSBs' income, investment in R&D, and spend on salaries and wages increased over the five years to 2018.



\$117 billion

- Total MSB income grew by 34% between 2014 and 2018.
- In 2018 MSBs provided approximately \$35 billion in value add, up from \$29 billion in 2016, a 21% improvement.



\$93k

MSB value add per employee has grown over the period.



\$22 billion

- The MSB sector directly injects an estimated \$22 billion into New Zealand households through salaries and wages
- Spending on salaries and wages increased by 38% between 2014 and 2018, ahead of the rise in employment of 24%. During the same period, small and large businesses increased their wage bills by 25% and 26% respectively
- MSBs contributed \$35 billion to GDP in 2017
- MSBs' R&D spend increased 47% between 2016 and 2018; however, last year they accounted for about 21.5% of total R&D spend while large enterprises accounted for about 64%

“MSB owners need more input from experts to help them take the next steps. However, they often don't know who to speak to, how much to spend or where to find the right support.”

Matt Hannah
Partner, Business Advisory Services
Grant Thornton New Zealand

Estimated contribution to GDP by employee size group 2017



Source: Statistics New Zealand Annual Enterprise Survey 2018

*Statistics New Zealand excludes Banking and Finance, Sewerage and Drainage Services, Owner-Builder Construction, Superannuation Funds, Residential Property Operation, Owner-Occupied Property Operation, Religious Services, Private Households Employing Staff from this data set

Salaries and wages paid



Source: Statistics New Zealand Annual Enterprise Survey 2018, indexed on 2014



Low productivity is a barrier to growth

Income growth is impressive, but profits and productivity are low.

Although the total income of the MSB sector grew strongly from 2014 to 2018, average income per enterprise has not increased. MSBs' profits have not risen as quickly as their small and large counterparts. Their low productivity (as measured by income per employee) is also a barrier to growth.

Small businesses are experiencing strong income and profit growth; this could indicate that they are turning into mid-size businesses, which would explain why the number of MSBs is rapidly increasing in New Zealand. Large businesses are seeing less income growth but are considerably more productive and profitable per employee than MSBs, which are closer to small businesses in terms of per-employee income.

MSBs' capital investment is also low. This is part of the wider issue of low productivity throughout New Zealand's economy and demonstrates the support that the mid-size business sector needs to grow.

“We’re forced to be in a marriage with the Government. And is that marriage fair? Or could they do more to support the innovation and technology side? I suspect the Australians get more support to invest in technology, innovation and capital expenditure; which is why they’re employing one person and we’re employing five to do the same job.”

James Adair
Director, Johnson and Couzins



\$11 million

Average total income per MSB.



\$1.2 million

Average profit per MSB.



11%

Profit to total income per MSB.



312k

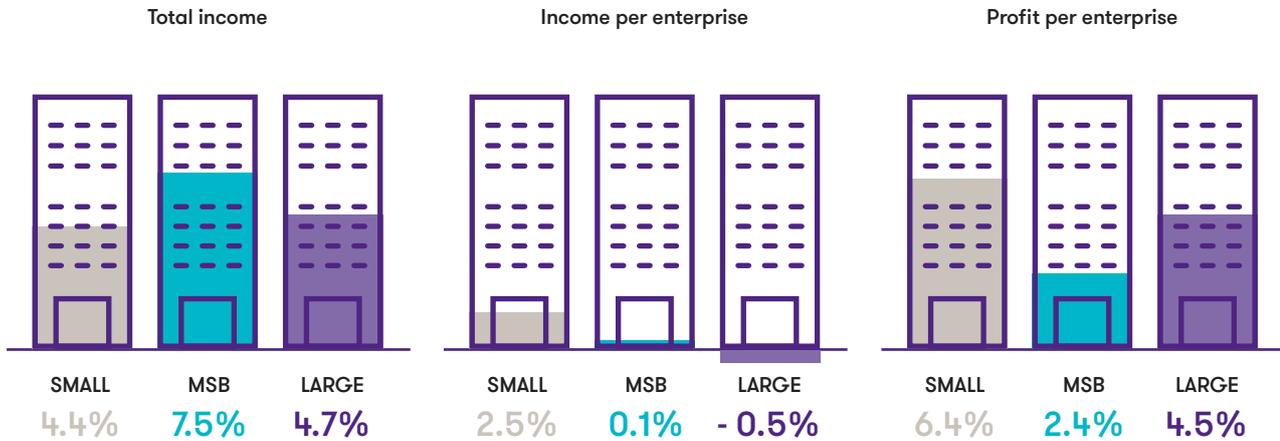
Average MSB income per employee.



7%

The average return on investment from assets (profit/total assets) per MSB is 7%. MSBs accounted for about 8.9% of total gross fixed capital formation in 2018, about \$3.9 billion.

Key performance measures: average annual growth 2014 - 2018



Average profit/income



Source: Statistics New Zealand Annual Enterprise Survey 2018

MSBs' capital investment is also low. This is part of the wider issue of low productivity throughout New Zealand's economy and demonstrates the support that the mid-size business sector needs to grow.



Source: Statistics New Zealand Annual Enterprise Survey 2018



Thinking too small when it comes to finance?

New Zealand MSBs have reasonable access to debt or equity finance if they request it, and they could reap rewards from planning for capital investment and looking at different ways of getting finance for it.

Mid-size businesses have a similar equity to total assets ratio as small businesses; this tells us that MSBs behave like small businesses when it comes to accessing and utilising finance. MSBs' tendency to take on debt financing is constraining their growth prospects. For example, some owners' reluctance to dilute the control they have in the business by bringing on investors is limiting opportunities for not only access to large amounts of capital, but new expertise and networks.



44.9%

Small enterprise equity to total assets ratio is 47.4% while large enterprises is 25.8%; for MSBs, this is sitting at 44.9%.

Of those MSBs that requested financing in 2018, 76% requested debt financing; only 9% of all MSBs requested equity financing.

“Mid-size business owners have put in the hard yards to build incredible businesses, and don't necessarily want to give up a share of their ownership to an investor. It's a difficult risk-reward calculation for well-established operators, but often a necessary one if you want to grow and reap more rewards.”

Jay Shaw
Partner, Financial Advisory Services
Grant Thornton New Zealand





Staying close to home limits growth

The percentage of MSBs that have international operations is low compared with other countries.

This points to the need to build capacity, although this may be constrained if the MSB sector continues to be dominated by enterprises operating in the construction, wholesale and retail trade sectors. MSBs need more encouragement to shift their focus to international markets and increase their exports. Our location provides a unique opportunity to build strong, enduring relationships with many emerging markets in the Asia Pacific region, and to achieve global growth ambitions for many home-grown MSBs. On the flipside, the physical distance between New Zealand and the rest of the world presents additional costs and challenges that can prove daunting for our mid-size businesses.

“Going into Australia is not the leap of faith that going further afield would be, because they have a common standard for dealing with most things.”

James Adair
Director, Johnson and Couzins



27%

About 27% of MSBs exported in 2018.



1.9%

Only 1.9% of MSBs report having international operations.



46%

By comparison, nearly half (46%) of German “Mittelstand” firms have international operations, while 29% of UK MSBs and 1/3 of Australian MSBs have international operations.



8.8%

8.8% of New Zealand MSBs have greater than 50% foreign ownership (16% in Australia).



Missed opportunities online

Naturally, nearly all mid-size businesses use the internet, and about half use it to receive orders for goods and services. But few are using it as a significant part of their sales strategy.



99%

MSBs using the internet.



60%

MSBs using the internet to receive orders for goods and services.



10% or less

For most MSBs internet sales are 10% or less of their total sales.



8%

Only 8% of MSBs make more than 50% of their sales via the internet.

“Amazon might be using robots and drones, but for most New Zealand businesses that might as well be Dr Who. For most of us it’s hard just to automate the basics.”

John Managh
CEO, Wilderness Motorhomes

Internet sales as % of total sales



Source: Statistics New Zealand Business Operations Survey 2018



Challenges and recommendations

Our analysis of the mid-market in New Zealand has identified a business sector that makes a significant contribution to the economy, strongly underpinning employment and household income.

This sector is vibrant and dynamic, but overall it is underperforming on profitable income growth, productivity and capital investment which means some big opportunities are being missed. MSBs need more support to identify achievable goals, plan accordingly, and access the skills and resources they need to execute their strategies.

Analysis of New Zealand business statistics supporting this

report indicates that many Kiwi MSBs are risk averse and behave like small businesses; they also have a low profile in the country's economic landscape. The aim of this report is to start a mission critical conversation about the power and potential of MSBs – one that will contribute to developing a deeper understanding of the issues they face and what they need to grow.

Our recommendations for MSBs to kickstart fresh growth

Get noticed	Create a plan	Improve revenue	Explore financing	Play to your strengths	Plan your future workforce	Think big on exports	Embrace disruption	Invest in R&D
								
Form a collective, find a voice	Develop your strategy and stick to it	Employee revenue must grow	Assess the risks then take the leap	Work on your business, not in it	Implement long-term talent training & retention	Consider export opportunities with an open mind	Use tech to reach a wider market	Increase productivity & enhance products & services



Get noticed and develop a collective voice

New Zealand MSBs need to throw off the shackles of tall poppy syndrome and thrust themselves into the spotlight. We need to hear more about what they're achieving or the challenges they're facing on their path to growth. We need to be celebrating their successes and focusing on the possibilities – not the impossibilities. If MSBs' view of the world is not articulated in the country's business conversation, their needs won't be met and opportunities for not only those businesses, but a significant portion of the population, will be missed.



Create a plan and follow it through

MSBs' average performance in certain areas suggests that many need to develop growth plans – and the discipline to achieve those plans. Good growth plans are aspirational and achievable; they are a roadmap for where you want to go and how you're going to get there.

These plans also set out what happens when you get to the end of the road; succession planning is a key strategic component that often gets overlooked. A solid succession plan not only provides some certainty when business owners are ready to retire, it can also increase the value of a business, and help owners become agile enough to contemplate a sale or a smooth exit on the best possible terms any time an opportunity arises.



Improve revenue ...

Although the number of businesses in the sector has grown over the past five years, our research suggests that a high proportion of individual MSBs are not growing. Static income per employee over the past five years is a negative trend. Improving revenue and profits means there's more cash for investing in growth opportunities.



... and explore financing options

Most MSBs have reasonably easy access to finance and they shouldn't be risk averse when it comes to seeking it. Taking on debt or equity funding to finance capital investment or expansion is often and understandably perceived as a big risk, but for most businesses there is no other way to finance such activity. Producing a strong plan for growth and development will help to make other financing options more attractive. Your banker and your businesses advisor will work together with you



Play to your own strengths: spend less time working in the business and more time working on it ...

MSBs' management teams tend to comprise generalists who need to spend a lot of time in the business; however business owners need to bring in the skills required so their own talents are put to use where they are needed the most – working on the business. Employing new staff or engaging business consultants and advisors like Grant Thornton can make the boat go faster towards your goals and add significant value in a wide variety of areas; some of these include identifying growth opportunities, strategic planning and implementation, raising finance, creating efficiencies and cost savings, and enhancing the use of technology while protecting the organisation from outside threats.

Relinquishing autonomy and some control can be a difficult transition for business owners, but it means that you can spend more time playing to your strengths rather than being pulled in a million different directions.



... and develop your talent pool with a future focus

High employment rates and low productivity points to limited skill development in the workforce. If this challenge isn't addressed, ongoing skill shortages will only grow and become more problematic in the face of non-stop market and technological disruption. Skills assessments should be a priority for MSBs; look at what your future business and clients will need from your people and identify the gaps. It's highly likely that the fixed capabilities in your organisation are fast becoming obsolete, so it's important that you're forward thinking about future hires, and that your current teams develop more dynamic and agile skill sets. Limited training budgets can be an issue for MSBs, so these initiatives need to be targeted and aligned to your strategic roadmap. You can also deviate from traditional training programmes and methods to disseminate knowledge that will benefit your people.



Think big on exports

Success on the international stage is no longer enjoyed solely by large corporates, and MSBs don't necessarily need to dominate their local markets and/or establish a local presence before setting their sights on opportunities overseas. MSBs that identify export markets for their niche products and services, globalise their supply chains and outsource non-core business functions to overseas partners will create a new wave of global growth.



Invest in R&D ...

R&D is a discipline that can touch all aspects of a business from improving processes through to new products and ways of working, all of which can deliver positive outcomes in terms of productivity, innovation and profitability. R&D is more than the creation or enhancement of products and services, and isn't solely practiced by scientists in laboratories. In fact, a lot of organisations can carry out R&D activity without even knowing it. Increasing the amount of R&D within an organisation can have significant benefits. Enhanced R&D tax incentives are now available, and they're often underused and misunderstood by business owners, so it's worthwhile investigating them to ensure opportunities for making claims are maximised; qualifying for a cash credit can offset some of the R&D investment cost.



... and embrace disruption

In the face of ongoing, endless change, the mid-market can actually capitalise on digital and market disruption by rethinking business and operating models; in fact, Kiwi organisations embarking on digital transformation projects have the potential to boost the country's GDP growth by 0.7% (\$9.6bn) over the next four years¹.

MSBs should look at technology as an opportunity rather than a challenge and use it to reach wider markets and create greater efficiencies.

¹ Unlocking the Economic Impact of Digital Transformation in Asia Pacific (Microsoft and IDC Asia/Pacific; March 2018)

Our recommendations for Government

Kiwi MSBs need to be given a voice, recognised for their importance and empowered to realise their full potential. The tone needs to be set from the top; so we are making the following recommendations to Government based on our research and experience on the ground with MSBs.

Grant Thornton in Australia and the United Kingdom have also produced reports about their respective MSB groups and similar themes between these and our research emerged: MSBs are the workhorses of the economy in terms of stable employment, growth in numbers and longevity. However, unlike Kiwi MSBs, the mid markets in the UK and Australia are performing well in terms of revenue growth and productivity. These reports also referred to their mid markets as the ‘silent chorus’ and the ‘forgotten middle child’.

Sharper definition

It’s time for a fundamental transformation in the way we define and talk about the business groups that make up our economy. We recommend that the business community and the Government – including MBIE and Statistics NZ – agree a definition of a mid-size business that is representative of the sector in New Zealand. This would help to better identify MSBs’ key characteristics and help all stakeholders to promote and support the sector more effectively.

Once a sharper definition is in place, more focused research can identify why the best MSBs succeed. A programme can then be developed to stimulate or even accelerate MSB growth.

Put MSBs on the economic development agenda

Successive Governments have focused on developing small and medium sized enterprises – a big task when there’s over 500,000 businesses in the mix. Working with and addressing the needs of the truly mid-size business will achieve transformational change in our economy.

Based on Grant Thornton’s research in New Zealand and overseas, and our first-hand experience in advising MSBs, we know that these organisations are mature companies that drive employment growth and have more potential to export than small businesses. But they also need help to better plan and execute their business goals. This includes planning for capital investment, access to finance and encouragement to enter new markets.

Developing the right skills within the business is also necessary. MSBs that do not have appropriate levels of resource will need particular interventions so they can optimise their operations to navigate non-stop market and technological disruption.

Productivity

New Zealand MSBs have a particular challenge in raising productivity; they need to improve management skills and capability, put more resource into staff training and development, and invest in systems and processes to reduce productivity lag.

There is a key opportunity for established Government funded agencies like NZTE and Callaghan Innovation to increase their bandwidth so they can provide specific interventions targeted at MSBs.

Case studies

Mid-size businesses share their journey to success.





Going places in style

Wilderness Motorhomes, Auckland

If you want to forge a business in fire, try starting it just a few years before a global financial crisis.

That's what John Managh did with Wilderness Motorhomes, and it was a rocky few years. From 2004 to 2008, the company grew rapidly, but by 2009, declining tourism and a weak global economy had driven it to the brink.

"I was teetering on the edge of losing everything," says John Managh, founder and managing director. His accountant at the time told him that the company had a 0.1% chance of survival; John believed that Wilderness was good enough to be the one-in-a-thousand success story. And he was right; the business now employs more than 60 people and delivers an unmatched customer experience. The lessons of the hard times have not been forgotten, though.

"Challenging times are good – pressure makes diamonds – and during the good times we're putting things in place to be ready for the bad times."

If you don't have a crisis, create one

In recent times, Wilderness Motorhomes has experienced six straight years of booming tourist numbers and an upsurge in motorhome popularity, particularly with older travellers. John has used the good times to cement the business's systems, setting it up to be able to withstand the next downturn. He works on the theory that if you don't have a crisis, you should create one, because that's what forces you to improve.



“A year ago, I created a ginormous crisis,” he says. “We were making too many mistakes, repeating them too often, and having too many dissatisfied customers. It was really frustrating. So we gave ourselves a tight timeframe to make some dramatic changes, including quite a big personnel change. We brought in a whole new way of thinking.”

John is aiming to deliver remarkable customer experiences in the most literal sense of the word: an experience people remember and talk about. It must have worked, because the customer feedback and reviews for Wilderness Motorhomes are glowingly positive, often raving. That positive sentiment has contributed to a growing business that is performing well and “feels solid underfoot, which is a beautiful feeling.”

By developing an outstanding user experience, John is future-proofing Wilderness Motorhomes – even in a small economy like New Zealand’s, or an economy going through a downturn, he believes there’s always room for extraordinary businesses.

Challenges in IT and stock management

After testing many models and manufacturing its own RVs, Wilderness Motorhomes now imports all its vehicles from Germany – plus extras for sale direct to the public through its sister company SmartRV. At that distance, stock management can be a headache. Long lead times mean inventory needs to be carefully planned and foreign exchange rates add a degree of uncertainty.

This year’s big project is a major brand refresh that will involve a website overhaul, “We go direct to market, so we have to be bloody good marketers.”

John points out that customer expectations have changed significantly when it comes to online transactions. Where a four-second wait for a site to load was once acceptable, now it’s closer to 0.4 seconds before a potential client might click away. Keeping up with increasing expectations is an ongoing process, though John always welcomes the chance to raise his game, “My father used to say there are only two things we can know for sure: we will die and things will change. Our expectations are changing all the time, and that’s not a bad thing. We have to learn and grow or we’ll get left behind.”

That also means keeping up with technology, which is something he thinks every small to medium sized business is struggling with, “The technology is so challenging because there’s so much available. We need to understand technology so we can choose what’s good, then we need to integrate it with our systems. For the normal mum-and-dad businesses in New Zealand that’s incredibly hard. We have managed to introduce some innovation; three years ago we didn’t have an IT department and now we have five people.”

Our success is not the Government’s responsibility

The success of Wilderness Motorhomes is a real slice of New Zealand because it reflects the positive perception of New Zealand around the world. John credits Tourism New Zealand with doing a wonderful job promoting our country as a destination. Not only for its beautiful landscapes but also by capitalising on how much visitors enjoy the New Zealand attitude to life.

“New Zealand is such an amazing country. I just spent two weeks in Germany, and it’s beautiful, but it’s not a patch on New Zealand. I live in Auckland and if I travel for three hours here, I can choose from over 100 beaches. This is an incredible country and I’m extremely optimistic about our future and the future of NZ Inc.”

Could the Government do more to help local MSBs?

“If the Government wanted to do more to help us, good on them,” John says. “But it’s not their responsibility to make us successful – it’s our responsibility. By looking after the basic fundamentals and spending wisely, we can grow, innovate, learn, and do things better every day.”



Exporting Kiwi tourism expertise to the world

International Travel College, Auckland

Travelling the world, having a great time, getting paid: what's not to love about a successful career in the tourism industry?

Graduates from the International Travel College of New Zealand are very satisfied customers – getting to see them thrive in their careers is part of why Claire Huxley loves her job as CEO. From the students to the lecturers to the management team, every person involved in the business is passionate about travel as a life-changing career.

Campuses across New Zealand and students from across the globe

The International Travel College (ITC) was co-founded in 1996 by Claire's mother, who moved to New Zealand from the UK in the 1990s and saw a huge skills shortage in the local travel industry. She stepped down as CEO nine years ago (although she sometimes pops back in to teach a class or two), and Claire stepped up from her role as marketing director to lead the team.

ITC began with a single campus in Auckland City, before opening a campus in South Auckland, then one in Whangarei, and this year there's a class being taught in Christchurch for the first time. In addition, students can study remotely, enrolling from Kaitiaki to Stewart Island. In total, there are around 400 New Zealand students enrolled each year, plus 50 from overseas.

Those international enrolments are an essential part of the ITC's ongoing success. Other private tertiary education providers succeeded in the early 2000s by building up large numbers of overseas students, particularly from China, but floundered during the global financial crisis when enrolments dried up. By marketing to those countries where the industry is vital and tourism careers are valued, the team at the

International Travel College has built ongoing demand for its services.

“We’ve got students of 27 different ethnicities, including Fiji, Noumea, Europe, Malaysia, Sri Lanka and India – all from regions where tourism careers are valued,” says Claire. “They bring so much to the classroom, exposing local students to diversity that they might not have experienced before.”

Changing attitudes towards a tourism career

One of the major drawcards for those switching into the industry is the flexible working hours, which can be attractive to those juggling a family or other commitments (ITC’s students are 80% female, 20% male). On the downside, that can also translate to low wages for those starting out, working part-time, or in seasonal employment.

Partly because of the low wages and sometimes informal employment typical of the industry, tourism isn’t highly rated as a career, despite the fact that business is booming in New Zealand. Tourism is our biggest export sector, bringing in 21% of foreign exchange earnings, and 8% of New Zealand’s total employment pool is directly employed in tourism.

There are plenty of success stories from ITC, with alumni working around the world in major companies, often in senior positions. Part of Claire’s work at ITC is promoting the value of skilled tourism workers to Government – it’s a job that can work for people of all ages and stages of life, and they can have a personally rewarding career and drive New Zealand’s economy and reputation here and around the globe.

“Not everyone’s an academic. An economy needs different people with different types of skills. You can’t have a whole country of dentists,” Claire points out. “This is a meaningful and worthwhile career pathway. Everyone who works here at ITC is ex-industry and we are very honest about what expectations our graduates can have. We get them into work experience and into the kinds of fun careers and lifestyles that we’ve all had. We’re all passionate about the sector.”

The challenges and restrictions of compliance

Innovation is tough when you are Government funded in this sector.

“We recently saw some fantastic technology for virtual classrooms, but we would have to take on significant debt and there are Government restrictions about what debt we can carry. I could take out a loan to fund growth, but I would break the framework and then I might not get funded again.

Our biggest risk is being in a sector so tightly controlled by policy and legislation.”

The funding system under which ITC operates looks backward, not forward: it’s based on the previous years’ enrolments, rather than predicted demand, so responding rapidly to growth is not feasible. That can be frustrating when the tourism sector is fast-moving and often trend-driven.

“I spoke to someone recently who said, ‘You don’t train anybody in adventure tourism, but I need 25 white-water rafting instructors for a new facility we’re about to open’. We just don’t have the capacity, infrastructure or investment to respond to the market that quickly.”

Compliance is also a headache, “We are hampered with massive compliance costs. We get the funding, then we have to do so much compliance, be externally audited and pay tax, so it feels as though the money is just going around in a huge loop.” Claire suspects these costs put off other prospective business owners outside of the tertiary education sector. She’s happy to have a core management team who have all worked with her for a minimum of seven years, although finding and keeping high-quality tutors is always a struggle.

“We do a really good job for very little investment – there are hundreds of our graduates out there in jobs who might otherwise be unemployed. They’re contributing to the economy, driving the tourism industry and bringing money into New Zealand.”

A passion, a vocation and a lifestyle

Despite the constraints it faces, ITC has grown steadily over the years and continues to do so. Flexible work hours and a long-standing management team, coupled with an expert advisory board and external consultants, has helped ITC to reach its current level of success. The business employs 35 people and has won a huge range of awards for its customer service, marketing, training, exporting and industry expertise. It received a ‘perfect’ rating in its 2017 NZQA External Evaluation and Review.

The best reviews, however, are from former students and their employers. ITC opens doors around the world, with graduates working for most major airlines, travel agencies and tourism companies.

“I’m lucky and blessed to be able to market the product we offer. It isn’t very tangible and it’s hard to market and describe – this is a passion, a vocation and a lifestyle.”

A man with a black beanie, glasses, and a black t-shirt is looking upwards and to the right. He is holding a white coffee cup with a yellow triangle logo. The background shows a brick building and a courtyard.

Taking Kiwi coffee to the world

Coffee Supreme, Wellington

New Zealand has a reputation for outstanding coffee, part of which has been built by Coffee Supreme. The brand emerged from Reds, a truly unique Wellington café that launched in 1992.

When Reds' coffee supplier went into liquidation, owners Chris Dillon and Maggie Wells decided to buy the supplier's roasting machine and begin producing their own. They loved the wholesaling business, their customers loved the coffee, and an iconic brand was born.

"Shit weather makes for good hospitality," laughs CEO Al Keating. "If you can't go to the beach, you stay in and drink – that's why we have fabulous coffee and craft beers in Wellington. New Zealanders are spoilt for good quality coffee and café experiences. Anywhere in the world you find a good café, there will be a Kiwi involved!"

Once established, Coffee Supreme quickly expanded into Christchurch and then across the ditch to Melbourne, where it was a foundation stone in the development of Melbourne's legendary café culture. From there, the brand expanded further across New Zealand and then into Japan. Coffee Supreme now employs 100 staff members across seven cities in three countries.

"It's been daunting – we've had a lot of balls in the air and working across the time zones can be a challenge," says Al. "Going into Japan has been tough. We've been there almost two years and it's a real challenge. We have to be bilingual and bicultural and it's a totally different culture. But across all the sites we've created an international brand that's loved and recognised."

Independently Kiwi owned in a sea of multinationals

Coffee Supreme is one of only two nationwide coffee companies that's still Kiwi owned. Other local brands have been bought up by the big multinationals, providing their new owners with a foothold in New Zealand and some instant authenticity.

"The same thing happens with craft beers. It can work, but Kiwis are very sceptical when a buy-out happens. When the cool flavour-of-the-month craft beer gets bought by a big brewery, Kiwis are like, 'Nah, that's not cool any more'," says Al. "Coffee Supreme is close to being the last independently owned nationwide coffee business standing and that's a real point of difference – we're distinguishing ourselves with our quality and service."

Standing alone also has its downsides: you're up against billion-dollar businesses with almost bottomless pockets and the ability to cut margins to the bone. For struggling café owners faced with high operating costs, the temptation to pare back the coffee bill by switching to a cheaper supplier is tough to resist. And the price of a cup of coffee is capped by consumer expectations.

That's something Al would like to see change, "Coffee hasn't been as good at differentiating tastes and quality – beer and wine do a great job. They've educated us to pay more for a region or a brand; nobody orders the \$8 house red anymore, they're prepared to pay \$13 for an Otago pinot."

If it can be made better, let's do it

Changing what coffee drinkers request, expect and shop is part of how the company innovates. All the research and development at Coffee Supreme is funded with cashflow, which means change when funds allow and the business leans heavily on internal talent. On the upside, the whole team is often involved in developing new systems and products.

"The opposite of innovation is 'If it ain't broke, don't fix it.' That's a very Kiwi attitude, and it's very much what our parents would say. Innovation is saying, 'If it could be made better, why wouldn't we do that?'"

Recently Coffee Supreme developed a high-quality instant coffee, "it's not cheap but it makes a beautiful cup." This is the first time a New Zealand speciality coffee company has made an instant coffee, and it's been selling well through select supermarkets and speciality grocery stores. The instant coffee is also moving quickly on the company's e-commerce site, which is about to get a major overhaul that will make the buying process run even more smoothly.

"People like to buy coffee from the source if they don't buy it at the supermarket. They want to talk to someone about it and know it's fresh. We have a pretty good online business with an amazing subscription model – one of the first in New Zealand – and I'd say we sell more online than our competitors."

You're as good as your team

Not only is all the R&D funded with cashflow, all the marketing and even setting up new branches overseas is paid for without taking on debt. Al says that means there are always compromises, but there's a certain amount of pride in standing independently and succeeding on your own.

There are aspects of international business where Al thinks the Government could provide more support – closer alignment with Australia would help – but says New Zealand Trade and Enterprise was really good at assisting Coffee Supreme to set up in Japan. The business would like to switch its fleet over to electric vehicles, but the cost is prohibitive; other countries do have some grants and subsidies available which Al would love to see implemented here.

Overall, though, Al loves the brand, the people and the industry. He's confident that although there will be challenges ahead, the team at Coffee Supreme can handle anything that's thrown their way.

"I think it'll be a really interesting three to five years in our industry, but we have an amazing talent pool. You're as good as your team, and we are very fortunate to attract and retain amazing talent."

Putting the competition in the shade

Johnson and Couzins, Christchurch



There can't be many businesses in New Zealand older than Johnson and Couzins. Established in 1866, over 150 years ago, it started selling tents to miners during the Central Otago goldrush.

Then the company segued into saddlery and oilskins. By the time James Adair and the current team took over in 2000, the business was focused on industrial PVC products with a sideline in awnings.

It wasn't until 2008 that the company found its current niche: outdoor shade products. It proved to be a highly successful pivot, says director James Adair, "We went from about eight staff back then to around 50 now. We currently turn over more in a month than we did in a year back then, so the move was certainly a positive one."

Johnson and Couzins manufactures Sky Louvres, Boulevard Awnings, Vista Screens, Shade Sails, and Summit Umbrellas to name a few. These products are manufactured in either their Christchurch or Auckland factories. Its flagship product is a retractable outdoor louvre, the Concertina SkyLouvre, a first-of-its-kind New Zealand design.

"There are other product offerings out there now, but five years ago we were first to market. Today, there is a lot of competition in the standard louvre market, but Johnson and Couzins' Concertina is somewhat unique, so it gets the lion's share of attention. It's an excellent product – they're a great addition to the home and people love them."

Getting shady in Australia

The Concertina is what caught the eye of an Australian franchise owner who had a similar but non-competing product. He thought the Johnson and Couzins range would be ideal to sell through his 38 outlets, and James was keen to see the company's intellectual property capture some of the much larger Australian market.

"We worked on a deal for about 18 months. He has to manage his margin from the franchises, and both parties had to gain



a clear understanding of who was getting the margin out of each aspect of the product. Once an agreement was reached, we were able to set realistic targets, and I'm confident that we will achieve them."

The benefit of stepping into Australia with a business partner is that Johnson and Couzins can make use of an existing distribution network and cover the whole country – so they can use national marketing in the same way they do in New Zealand.

"Getting our own distribution network there? It's too vast, it's too risky. We have young families and we don't want to travel all the time. This way we can achieve the same result but with a whole lot less risk."

Innovating for a micro-market

Johnson and Couzins are working hard on new innovative products such as the newly developed Ezitarp, a retractable tip-truck load cover that can be operated from the ground. Health and safety regulations are moving toward all loads being covered to prevent stones bouncing out and spills, but not all truck drivers are willing or able to clamber around on top of their loads to pull on tarpaulins. Another product is Louvrekite, a DIY Louvre range aimed at people who want the benefits of an opening roof louvre but don't want to outlay the

normal cost required to obtain one. There are also continual improvements to their existing product range to keep them at the forefront of the market.

Incurring the cost of developing these products is a difficult decision to make, says James, "If new items are successful and we've read the market size correctly then all's well that ends well. But in a country of just five million people, it would be easy to develop some really good features but we need to be mindful of the numbers of units we would sell".

"We look at Europe and they're creating some exciting offerings for their 400 million people. In their market it is easier for them to get a return on that investment. The challenge is investing in new innovative products to stay ahead of the market, but making sure there's a market that's big enough to sustain them."

Kiwi companies are in an involuntary business partnership with the Government, says James. The Government provides the environment to trade in, and in return it gets 30% of the profits. He wonders, though, if the partnership isn't a bit one-sided: "Does it stretch to reinvestment in innovation and capital spend? That burden is left to the owner. The Government wants owners to invest, then the Government gets the reward."

The catch-22 for mid-size businesses

James says that the trickiest part of running Johnson and Couzins is they're now at the size where they could use specialist roles. There is a laundry list of roles he would like to be able to afford, but the budget doesn't quite stretch that far.

"As a mid-size business we are still having to wear many hats. Big businesses employ a bevy of people to fill specialist roles because they need them and they can afford them. Small businesses don't need those people, but for us that's the challenge: there are a lot of things to spend money on, so what do you choose?"

Staff retention, recruitment and management are a major part of the success of Johnson and Couzins. They pay well and work hard to retain staff in a dynamic labour environment. People generally have higher expectations than in the past; owners always want to meet and exceed those expectations and work through ways to get a win-win situation.

Business confidence level? Ecstatic-ish.

Although business confidence in New Zealand may be generally down, James is feeling optimistic. July was a really good month, despite the fact that the peak season for the business is swimming season, between Labour Day and Easter. A record-breaking July bodes extremely well for the summer ahead.

"I'm conscious we need to keep developing new products and open up new markets, but overall I'm happy enough." So, considering the usual Kiwi penchant for understatement, ecstatic? "Ecstatic-ish. We've got reason to be happy enough. Things are ticking over. There's always things to, do but no great complaints."

Methodology

Mid-size business definition

There is no official definition for a MSB in New Zealand. For the purposes of our research, mid-size businesses have revenue of \$5m - \$30m. The Financial Reporting Act 2013 defines a large entity as one where 'the total revenue of the entity and its subsidiaries (if any) exceeds \$30 million'. MBIE defines a small business as one that employs fewer than 20 people, implying that a medium sized business employs 20 or more.

We believe that revenue of \$5 million to \$30 million is representative of what a mid-size business is currently achieving in New Zealand and is a good starting point on which to improve.

Data

All research in this report is based on three sets of data produced by Statistics New Zealand:

- Annual Enterprise Survey 2018
- Business Operations Survey 2018
- Business Demography data 2018

The primary source for this research is the Annual Enterprise Survey (AES) which defines the enterprises by income groups: \$0 to \$5 million; >\$5 million to \$30 million; and >\$30 million.

Business Demography and Business Operations Survey data is based on employee size groups: 0 to 19 employees; 20 to 99 employees; and 100+ employees.



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Auckland

L4, Grant Thornton House
152 Fanshawe Street
Auckland 1140
T +64 9 308 2570
F +64 9 309 4892
E enquiries@nz.gt.com

Wellington

L15, Grant Thornton House
215 Lambton Quay
Wellington 6143
T +64 4 474 8500
F +64 4 474 8509
E enquiries@nz.gt.com

Christchurch

L3, Grant Thornton House
134 Oxford Terrace
Christchurch 8140
T +64 3 379 9580
F +64 3 366 3720
E enquiries@nz.gt.com

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