GLOBALISAT
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Technology has long been the driving force behind globalisation. Both have been good to Australia and New Zealand in the past. Now there's a fear we will be casualties as a new globalisation wave disrupts industries and displaces workers while creating Silicon Valley billionaires. **Bill Bennett** *investigates...*

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Exports took off 150 years ago when steamships, railways and refrigeration took sheep meat, wheat, minerals and butter to the other side of the world. The telegraph, radio, aeroplanes and container shipping were all once innovative new technologies. They opened borders and stimulated international trade.

Then the internet arrived. Optimists thought it would boost trade. The earlier export technologies were all about moving kilograms of things which could rot, break or sink below the waves on their overseas trip. It costs money to move atoms across the world. The internet could move the electrons making up digital goods for next to nothing and bypass tariff barriers.

Internet pioneers didn't expect that moving business online would lead to consolidation. The commercial world has always leaned towards the winner taking all, overnight this happened on a global scale with less room for national champions. Now just one company can dominate a market around the world. Think Google with search, Uber with car trips or Netflix with entertainment.

On one level, building global scale is just about money. You need a huge war chest to take on the world.

Brett Roberts advises companies for Callaghan Innovation. He says there are few New Zealand companies with the potential to dominate global niches. He names Xero, Orion Health and Vend.

"They set out on day one with a global mindset. You have to do this in New Zealand; the population is the size of Sydney. To get scale you need to look overseas and doing that means funding is critical. Smaller, less well-funded start-ups lurch from one financial squeeze to another", he says.

While there's local money to seed tech start-ups, companies learn the importance of looking for offshore investors. Roberts says it's no accident the companies he mentioned are all led by great communicators.

"It's as important to communicate a vision as it is to come up with the idea in the first place. It is all about the message," he says.

CEO of Xero, Rod Drury, has proved there is nothing to stop local companies from following the same trajectory as the global giants. With Xero he aims to give the world's small businesses online accounting software, but that's only the start. Drury's plan is to provide a wider set of services to that market.

Xero's strategy is all about building global scale fast. Drury says this means being disruptive and having an international outlook from day one. "We are building a growth company in a market that was full of stable, comfortable companies. We're the only business in this market that's looking to globalise: MYOB is mainly in Australia, Sage the UK and Intuit in the US," he says.

Momentum is the key. Drury says: "Xero is nine years old and saw 80 percent revenue growth in the last year. We have more than a quarter of a billion customers in the bank. There have been plenty of opportunities to swim to the side of the pool, but we've executed well. We're growing faster than our rivals. We've spent a lot of money, but we can't keep on adding people to our team the way we are. Sooner or later the numbers will cross over and we'll be in profit".

Drury thinks coming from New Zealand gave the company an interesting start. He says: "We're lucky to have a test laboratory in New Zealand".

Phil Morle, co-founder and CEO of Pollenizer, the Australia-based company building early stage internet companies, has an interesting perspective. He says New Zealand is better than Australia at building global businesses and Australia's start-ups do a better job than the blue chip companies.

NZ government looks overseas

Don Christie worries about the threat globalisation poses to local technology companies. He says: "We're in danger of being screwed. Global giants can temporarily import cheap labour, they don't need to pay local wages or taxes. That way the money and the intelligence in their work doesn't stay in New Zealand".

Christie is a director of Catalyst IT and co-chair of NZ Rise, an organisation aiming to give local digital companies a voice in a market where he says "there's a danger of being drowned out".

NZ Rise is particularly concerned about selling to government buyers who often look at the huge overseas suppliers first.

"Government thinks of itself as a huge monolithic concern needing to deal with large suppliers. Departments rarely look at local suppliers who, usually, are a more appropriate size to deal with them," he says.

"It's frustrating that Wellington City Council doesn't have a local supplier-first policy like many overseas organisations, including Bristol Council in the UK. We offer intimacy, we are able to better understand what clients want and need".

Despite the negatives, Christie sees a positive side to globalisation. He says that when overseas companies come here we benefit from knowledge transfer. That happens seamlessly in the open source world. And local companies are taking that knowledge back to the world. Christie says 80 to 90 percent of New Zealand's digital exports are in services.

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He says New Zealand companies have the advantage of knowing from the outset they don't have enough of a domestic market to achieve scale. Australia's start-ups building SaaS companies are dealing from day one with an ecosystem that helps them go global. He says big Australian companies, particularly in the media and telecommunications sector have a substantial pool of talent and resources, but only seem to be interested in building domestic operations.

Which brings us to another aspect of globalisation. It can favour the small. Morle says there's a global community of start-up people. They share ideas and help each other. They can be in Sydney, Melbourne, Palo Alto or Shanghai, the point is they have more in common with each other than with the larger companies in their markets. That start-up help community isn't available to enterprises.

Hayden Glass is a consulting economist at the Sapere Research Group and convenor of collaborative think tank The Moxie Sessions. He says there's more to raising money than just the cash.

"I hear different views about whether it is easier or harder or better to raise capital in New Zealand for a tech venture than other places. Most of the benefit of funding is not the cash itself, but the smarts, the experience and the networks to accelerate business progress that can come with it. For that reason, I think Silicon Valley money is interesting to a lot of tech firms."

Drury echoes this. He says: "Getting tier one investors on board is about building credibility, getting the flywheels going."

Canterbury-based Ben Kepes has been an investor, director and adviser to companies in New Zealand, Australia, the US and the UK. He spends a third of the year in the US and Europe. "All things being equal, Kiwi companies have a harder path to success than offshore ones. That's not to say that we can't do it from NZ, but rather globalisation hasn't made a massive difference in the uneven playing field that exists between US-founded and New Zealand-founded companies," he says.

"The number one piece of advice that I give to technology start-ups is that their chances of succeeding in New Zealand are far slimmer than if they were to get on a plane and head to Silicon Valley. There are outliers but, in general, success in New Zealand is in spite of, rather than because of, the location.

"Access to customers, access to capital, and access to networks are all easier in the US and in The Valley in particular. While the success of Xero and Vend made it easier to raise money in this country, entrepreneurs realise smart money is more important than the quantum.

"Start-ups want investors who can help them access markets, partnerships and potential M&A interest. There are few investors in New Zealand who have the networks to do that in the market that counts: the US. Lance Wiggs' Punakaiki fund does a great job of bringing together smarts and money, but even then, if the US is the eventual destination, Punakaiki is an interim step", says Kepes.

Things are similar in Australia. Morle says: "We are good at seed capital and early stage finance but when it comes to the millions of dollars there just isn't the money here". He says 38 percent of the venture capital money in Australia comes from local sources, the rest mainly comes from the US.

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The view from IDC

New Zealand service providers fare better than their Australian counterparts. IDC research manager Louise Francis says: "The biggest difference IDC has seen is that in New Zeland local companies, particularly in IT services, fill many of the top ten spots in terms of brand awareness and market share. Spark Digital and Datacom fill two of the top three spots in New Zealand.

She says: "Regionally there's a high level of parochialism when it comes to selecting IT partners. Local is king and many will even seek out a local vendor even if the price is higher. IDC has also seen a distinct difference in the way companies from different regions select their providers."

"In Auckland and Wellington, with a higher proportion of large companies, the focus is in service delivery and cost. In Christchurch the relationship, communication and trust with the provider is the primary decision factor. I would say that globalisation has had a much bigger impact on Auckland and Wellington than cities like Christchurch," she says.

Francis also says globalisation has made it easier for New Zealand IT companies to establish a global footprint. "A company's virtual footprint can be much larger, thanks to the internet and the standardisation of cross border technologies," she explains.