

John Walley, CMA Chief Executive

February 2008

2008 - An Agenda for Change

Welcome to the first edition of Manufacturing Matters for 2008.

As with each New Year, 2008 began with the hope that it will prove better than the last. 2007 was a difficult year for manufacturers and exporters throughout the country. Volatile and record exchange rates, rising input costs, and increasing competition from cheap and often inferior imports pushed a succession of companies offshore, and unfortunately last year's trends are not only continuing but indicators suggest things could get worse for the economy.

Although it has since dropped a little, the NZ dollar again nudged US80 cents in the first weeks of January; annual inflation reached 3.2%; the gap in business confidence between New Zealand and Australia widened, and a leading manufacturing company, Humanware, announced it plans to move its production facilities from Christchurch into Asia. There is also doubt over the future of a Reefton sawmill, which is a concern, because if sawmills are threatened with closure along with elaborates, then what else can New Zealand rely on to earn its way in the world?

The economic focus has already switched to the question of whether the Reserve Bank will shift the OCR one way or another in light of these conditions during 2008. The comments in the media from the country's leading economists suggest opinion is leaning towards the RBNZ continuing its 'wait and see' approach – occasionally talking tough but essentially doing nothing – and then possibly lifting interest rates later in the year if inflation pressures remain. There does not appear to be a great deal of optimism that the RBNZ will lower the OCR despite the benefits such a move would bring to the tradable sector.

With our experience and in light of these forecasts, the MEA is calling for an 'Agenda for Change' and an end to "buy now, pay later" policy in 2008. Agenda for Change is not aimed at any specific political party or organisation; instead it reaches across political lines.

The message calls for change to current policy and the creation of a framework that can provide tangible support for our manufacturing and exporting sectors, in particular elaborates, and find a way to deal with domestic inflation and enable New Zealand to reap the benefits offered from innovation in markets and products.

We cannot build sustainable export growth if the non-tradable sector runs at 2.5 times the inflation rate than the tradable sector. Total reliance on the OCR drives our exchange rate; killing exports, creating a huge current account deficit, driving people and activity out of New Zealand. This is the basis of the call for an 'Agenda for Change'.

Government and some other organisations around New Zealand do not believe that such an agenda is necessary. Their case is that conditions for manufacturers and exporters are an unfortunate side effect of monetary policy, and that policy makers should leave things be. However the argument of 'don't need too, wont do, can't do' will matter little, because if things don't change, more and more activity will bleed away from New Zealand, never to return and each new loss further threatens what remains.

There are manufacturers enjoying success and growth at present, but many of these tend to have a domestic building sector focus. For the manufacturing companies with a strong exporting component, last year was one of loss of activity, margin or both. As large companies quit New Zealand, complex supply chains become weaker and what remains of our export product profile, on average, just gets simpler. New Zealand may be increasing its export volumes thanks to the primary sectors but we are not keeping pace with Australia and the United States or the OECD average per unit prices and margins are falling as we lose our complex exports.

The challenge we set forth to policy makers is develop an Agenda for Change; find the courage to put an end to buy now pay later policy; and a solid framework for activity to develop and people to stay in New Zealand. Move away from inaction and indifference that tries to hide behind a never ending range of taxpayer funded initiatives and schemes that achieve nothing. Unless policy makers realise the desperate need for change, then more of our elaborate manufacturers and exporters will move offshore, the gulf between New Zealand's two economies will continue to widen and 2008 will be little more than a repeat of 2007.



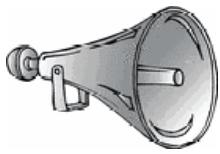
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“Agenda for Change”

The latest Canterbury Manufacturers’ Association (CMA) Survey of Business Conditions completed during January 2008, shows total sales in December 2007 increased 16.6% (export sales increased by 12% with domestic sales increasing 21.77%) on December 2006.

The CMA survey sample this month covered NZ\$425m in annualised sales, with an export content of 51%.

Net confidence dropped to -10, down from the -8 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 97.5, up from the previous month’s 97, the change index (capacity utilisation, staff levels, orders and inventories) decreased to 99 from the previous months 104, and the forecast index (investment, sales, profitability and staff) is at 104.2, down on the previous month’s result of 106. Anything less than 100 indicates a contraction.

Constraints reported 18% production, 18% staff and markets 64%.

Staff numbers for December increased by just over 4.8%.

“December’s results are very similar to the previous month in that short term results are showing improvement in the manufacturing sector yet confidence continues to drop. This survey also shows a drop in the index change below 100 for the first time since April 2007. The sentiment around this survey is that in the short term, things are OK with some respondents saying that orders and sales numbers are improving early in the New Year. However further out our respondents foresee problems, due to high interest rates, strong dollar, the gap between the two economies and the possible impacts of the global credit crunch”, says Chief Executive John Walley.

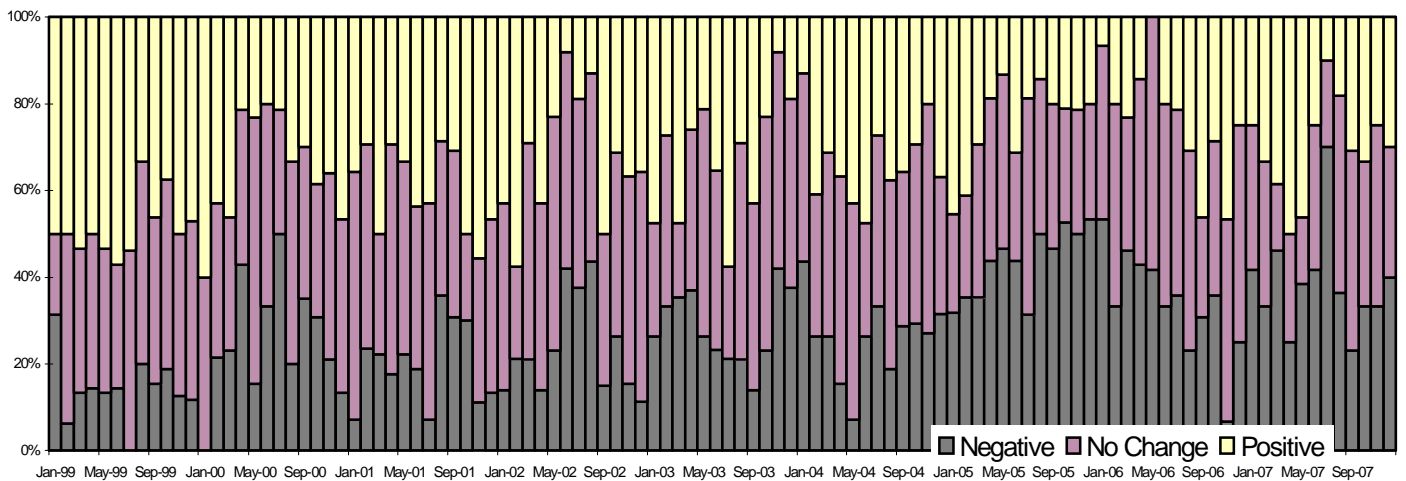
“Respondents report that they do not expect the OCR to be lowered this year and already this year, the NZD has pushed back towards the USD.80 mark. This cycle will continue to have the inevitable effect on exporters. Humanware has announced its relocation plans and the Reefton sawmill has said it is closing in March. These announcements show that both elaborate and basic manufacturers are under pressure. The losses will further impact on local supply chains, skills base and the loss of Humanware further illustrates the fallacy in the argument that you can lose production yet generally retain R&D indefinitely”.

“Although the indicators are showing that 2008 will be a repeat of last year, we hope that policy makers will embrace an ‘Agenda for Change’ in election year and provide policy support for firms investing in new equipment, developing new products and investment in overseas markets. Policies need to change so that the New Zealand economy operates with differences between inflation and the base interest rate closer to the OECD average, otherwise we can anticipate a protracted and artificially high exchange rate as global liquidity chases New Zealand’s higher interest rates laying waste to returns for our exporters”.

In an election year, the prospect of yet more “buy now pay later policy” looms large – but it does not have to be that way, we can change”.

If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.

Confidence



Confidentiality at Mediation

In mid 2006, a decision of the Employment Court in *Jesudhass v Just Hotels* was met with surprise by many employers. This decision centred around statements made by the employer (Just Hotels) to the employee (Mr Jesudhass) at mediation. It was alleged that during the mediation arising out of a personal grievance raised by the employee claiming disadvantage in his employment, the employer indicated to the employee that he would not be permitted to return to work and would be dismissed immediately after the end of the mediation. The employer denied making the statements but the employee was dismissed two days after the mediation by facsimile.

The employee then filed a Statement of Problem with the Employment Relations Authority but sought to have the application removed to the Employment Court on the basis an important question of law was likely to arise. The question of importance was whether the employee could adduce evidence of the statements made by his former employer at mediation indicating he would be dismissed to support a claim of constructive dismissal.

Section 148 of the Employment Relations Act 2000 states:

"Except with the consent of the parties or the relevant party, a person who-

- (a) provides mediation services; or*
- (b) is a person to whom mediation services are provided; or*
- (c) is a person employed or engaged by the Department [responsible]; or*
- (d) is a person who assists either a person who provides mediation services or a person to whom mediation services are provided-*

must keep confidential any statement, admission, or document created or made for the purposes of mediation and any information that, for the purposes of the mediation, is disclosed orally in the course of mediation."

The Employment Court had undertaken a detailed analysis of the implications of section 148 by considering confidentiality in other legislative provisions, the case law preceding the enactment of the section, the relevant legislative history and subsequent interpretation and application of the section. The Court held that the protection of section 148 to statements made during mediation was not absolute - in order to be afforded the protection of section 148 the statements must be genuinely made for the purposes of attempting to resolve the employment relationship problem. The Employment Court concluded the employee was entitled to adduce evidence of the employer's statements regarding his threatened dismissal in his personal grievance hearing. The trial judge could then determine whether the statements were made "for the purposes of mediation" or not and could be admitted.

The employer appealed the judgment to the Court of Appeal. In its decision of 14 December 2007, the Court of Appeal allowed the appeal on the basis that section 148 was not ambiguous. All communications "*for the purposes of mediation*" therefore attract the section 148 confidentiality. A limited public policy exception was referred to by the Court of Appeal as potentially existing in a situation where, for example, serious criminal conduct occurred during mediation. As the Court of Appeal noted, documents or statements prepared for use in mediation will be confidential under section 148 which "*reflects the desirability of encouraging the parties to a mediation to speak freely and frankly, safe in the knowledge that their words cannot be used against them in subsequent litigation...*"

This article was provided by McPhail Gibson & Zwart Ltd. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.



Upcoming Events

Engineers Industry Group Breakfast Meeting Tuesday 19 February, 7.30am

This meeting is a discussion on the 2008 MECA. For MEA members wishing to participate in this session you can attend via our online Webex conferencing facility, contact trudydiggs@mea.org.nz for details on how to register.

Making Sure Your Business is Ready to Sell When You Are

If you wanted to sell your house, you'd tidy it up in the hope of achieving a quick sale or a better price. When it comes to selling your manufacturing business, a similar principle applies. You need to take a critical look at every aspect of your operation and apply a little polish where necessary. Put yourself in the shoes of a buyer and ask what would make your business more attractive. You, the seller, are an important part in the overall marketing plan and your role starts with cleaning up your business - physically and financially.

The overriding principle is to continue running your business operationally like you're going to own it forever, but start running it financially like you want to sell it.

Call in the Professionals

Selling a business is specialised – it's much more complicated than selling your house or car and there may be valid reasons to keep the sale process under wraps. Step one should be to call in a professional business broking service. A business broker will guide you as you get ready for sale, identify potential buyers, and manage the negotiations and due diligence processes. The sale of your business is probably one of the largest financial transactions you'll ever undertake – it's not something to be left to chance.

Don't Take Your Foot off the Pedal

Once you make that crucial decision to sell it's easy to feel a lessening of your commitment to the business – but now is the time to go into overdrive. Improve your systems, document your procedures, continue employee training programmes, step up customer service and review all advertising to make sure it's hitting the mark. Do all the things you have always done to build your business – but try to do them even better.

Clean up Your Act

Many business owners enjoy the tax benefits of owning a business, but now is the time to go through your financial statements and make them as 'clean' and transparent as possible. The fewer discretionary items seen to have been put through the books the better (remember that Sydney 'business' trip that coincided with a Bledisloe Cup game?). Your accounts will be more transparent and believable to any potential buyer.

Stay up to Date

A buyer will want to understand your business' financial past and future potential. You will need to have up-to-date financial statements - income statement and balance sheet - available on a monthly basis in order to clearly and accurately reflect the current operation of your business. Keep unnecessary expenses to a minimum but make sure all revenue is reflected.

First Impressions Count

Your manufacturing business will include a factory or warehouse, so keep it clean and organised. Get rid of rubbish and out of date stock. Ensure signage is professional. Consider a fresh coat of paint and replace worn furnishings. Make sure everything functions – inside and out. Great financial statements can lose a lot of value if the reality of your business doesn't appear to stack up.

Review Your Systems

Make sure your business systems are efficient and effective. If you've been thinking about introducing a new piece of business software – now might be the time if it will make your business look up to date rather than over the hill. If you don't have written records of your basic business procedures, get started on a written manual for your business.

What's Your Bottom Line?

Having clear and realistic value expectations and being prepared to be flexible on settlement terms will put you in a good position when it's time to negotiate. Give yourself some time to add more value before putting it on the market and when you are ready, make sure you surround yourself with professional advisors.

This article was provided by Tabak Business Sales. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.



MANUFACTURERS AND EXPORTERS ASSOCIATION

One of MEA's Membership Benefits

Did You Know...?

USA specific End User Licensing Agreement (EULA):

As a result of member requests at a Electronics, Software and ICT (ESICT) group meeting, the Bayne Law Group was commissioned to develop a suitable EULA for use in USA. This is available for MEA members to use, contact the MEA for information.



Manufacturing Excellence – the Modern Approach to Production

New Zealand manufacturers are competing in a global marketplace in which there is no clear delineation between domestic and export markets. Manufacturers must exhibit manufacturing excellence to be successful in this global environment.

That is easy to say, but how do we achieve manufacturing excellence? The best way to start is to truly understand the customer by getting inside the customer's head and identifying what they really want. This requires both subjective and objective measurements. Then we have to develop production processes that deliver to the customer exactly what they want, when they want it, and how they want it.

The modern approach to quality recognises this customer focus by encouraging firms to identify the customer requirements and to design, and subsequently modify, business processes to consistently achieve nothing less than the minimum of customer requirements. Keep the customer happy, supply them with exactly what they want, when they want it, how they want it, and they will come back for more, and more.

Customer intimacy concentrates on designing and modifying products and services to satisfy a narrow definition of the customer with the objective of long-term customer loyalty and long-term customer profitability. This suggests processes that stay close to the customer and build long-term relationships.

Inherent in this approach is the requirement to keep costs down. This is not achieved by buying cheap and cutting corners. Rather, it requires a concentration on increased reliability by making processes more repeatable and this in turn improves production, yield, and efficiency. Resources are focused on the right products and the right processes and the right projects.

This then leads to the development and execution of a company strategy that delivers a clear picture for future decisions. Using a balanced approach, the modern manufacturer develops customer intimacy, possesses a customer-centric approach to quality, recognises the true value of time as a competitive weapon, and keeps a balanced scorecard for performance measurement.

More than likely this would embrace a pragmatic approach based on sustainability and renewable advantage. In other words, the manufacturer develops a capability of responding to competition with agility while being simultaneously competitive and cooperative.

Collaborative supply chains rely on global supply and global sourcing methods that are flexible with innovations in contracting, pricing, and other coordination mechanisms.

The uncoordinated and isolated approach that is so common today will not be competitive in the future. We need an integrated approach that is data-intensive and makes full use of internet and ERP technologies.

To achieve this we require a very flexible approach to information technology that uses continuous improvement and recognises market and demand flexibility.

Quality and productivity improvements will be identified and implemented using real business benefits. The result is a simultaneous focus on efficiency and flexibility.

Possibly the most radical change requires firms to start looking at the business from the outside-in rather than from the inside-out. By all means retain an emphasis on cost and cycle time benchmarks, but develop processes in a learning environment. This will see goods and services and contracts being bundled together with dramatic increases in speed, integration, discipline and knowledge.

The learning process will develop in stages and will have an interesting mix of process innovation and control.

The new environment will see global flexibility, strategy-driven charters, the demise of economies of scale, and a localised approach that has modular and flexible layouts.

As for quality, it is a prerequisite for playing the game. Quality is everyone's job. This demands a pervasive approach that uses formal and systematic processes.

The CMA has a series of workshops on Manufacturing Excellence scheduled to start in April. Delegates should receive an excellent understanding of what has to be done to become an excellent manufacturer and how to implement the necessary changes.

This article was provided by Gardiner Consulting Group and some content is based on "Operations Management for Business Excellence" published by Pearson Education in August 2006. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.



Global Telecom

Telecommunications has come a long way since the days of the local telephone switchboard attendant answering your call request with the familiar response of, "Operator, number please".

With the advent of the public internet in the mid-1990s where global high speed data transmission became king, someone got the brainy idea to condense and transmit electronic voice packets through this new medium with the ultimate intent of matching the quality and efficiency of standard telecom services. This became known as Voice over Internet Protocol or VoIP. Combining this new technology at the turn of the century with the world's telecom networks through electronic gateways started a stampede of competition to capitalize on this new wave of voice communication that included PC to internet to standard telephone.

Once long distance voice transmission on the internet was coupled with the world's standard telecom networks, the customer calling cost to utilise this combined technology became minimal or in some cases even free. "Free calls!" became the marketing mantra of many of the early VoIP providers and continues to be the most often used sales pitch today; but are the masses being fooled into believing that anything worthwhile in the information technology world could actually be free? First of all, what are the basic values and expectations of today's consumer when making a phone call? The average Jo (unisex of course) in today's telecom world routinely expects top quality without interruption for even the most basic of voice communications. This of course comes with a price tag; and where international long distance charges are concerned, the price can be quite dear. On the other hand, would Jo lower such expectations based on cost, even to the extent of having the opportunity to make free long distance calls?

There is also the issue of convenience; not being tied to your PC for these so called 'free calls', but actually having a flexible handset arrangement next to your favourite armchair; or better yet, imagine walking around your home or office making free international calls with a cordless phone. How about the extra residential and commercial features offered routinely by your standard telecom such as caller ID, call forwarding, call waiting, conference calling, speaker phone, memory dial and redial – again, all at a price. What if it were possible to have all of these features where most international calls are free or significantly discounted?

Imagine a seamless global telecom provider offering standard telephone lines and services for up to 90% savings, and global PABX business systems with free customer calls to extensions world wide with cost savings of hundreds, if not thousands of dollars per month. Would you care where the wire in the back of your phone handset goes as long as your local and international calls are made successfully with the highest of quality expectations at a significant cost savings... sometimes even free?

Welcome to the world of combined technology where our global telecom operators are ready to take to your order. Number please?

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MEA HR Advisory Services

Penny Shaw, Senior Consultant - Brannigans Human Capital: Penny has experience in the facilitation of a wide range of HR functions including employment relations, performance management, negotiating skills, recruitment and selection and human resource audits.

Sarah Bradshaw - McPhail Gibson & Zwart: Sarah is experienced in drafting employment agreements/contracts for service interpretation of all legislation relevant to employment issues, attendance at mediation, advocating in the Employment Relations Authority and the Employment Court and conducting of disciplinary meetings for employers.

Juanita Wilson - Next Step Solutions: Juanita offers a practical, common sense approach to HR challenges in the areas of manufacturing, retail, distribution, administration and professional environments, advice on HR, health and safety process and systems, recruitment and selection, skill assessments, performance review systems, training and development and change management.

For any human resource/employment questions please contact:

MEA HR Advisory Services on our website: www.cma.org.nz, or phone: 0800 353 2540, or email: meassist@mea.org.nz.

The Innovation Imperative

No business is immune from competition and those that fail to observe new trends, spot opportunity and implement new technologies before they are gobbled up by ever vigilant entrepreneurs are destined to fall by the wayside.

Look at the example of the Swiss watch industry that ignored the advent of quartz crystal electronic watches. The Japanese, as ever vigilant technology entrepreneurs, were the ones to seize quartz technology and develop a premier watch industry that even today remains supreme, despite the fight back from the Swiss who once so dominated the market.

Not even the corporate giants, perhaps once thought to be unassailable, are immune from competition and it is this fear of competition that is driving their need to be constantly innovating their offering to remain viable.

In the aircraft business, Boeing, the clear market leader just a few years ago is now being seriously challenged by Airbus Industries. Ford and General Motors have been overtaken by TOYOTA, and TOYOTA itself now will soon face the challenge of the emerging auto makers of China.

If businesses today wish to remain successful and grow, they need to be constantly moving to re-invigorate their market offering and the means by which they do business.

So What's the Answer?

The answer of course lies in innovation, a concept that has been so badly misrepresented and misunderstood that its very meaning has been all but lost.

A definition of innovation is best developed from some simple logic that underpins the best practices of the best organisations.

What is the Biggest Risk in Business?

The answer – market risk!

If one investigates the reason for business failures and indeed the failure of almost any new product or service the answer, in all but very few cases, is always the same – market failure.

The solution to ever improved business outcomes is ever renewed offerings. Not “blue sky” offerings that represent high risk, but improvements to what people are already busy doing.

This lead to the best definition of the most valuable word in business: “Innovation” - best defined as – “change that adds value”.

The message is simple, innovate or succumb to the pressure of today's pace of change.

Take a Lead From the Champions

The winners in business are those that have product, process and service offerings that are constantly being innovated to migrate both themselves and their customers to an ever better place.

Consider these examples:

- Toyota is the best in the world at producing quality vehicles with new innovations being added to every new model and also the upmarket LEXUS range that competes with other top end brands. You can be sure they will have a low end model ready to meet the Chinese onslaught when it emerges.
- Apple Inc. with the original i-Pod now offer many innovations on the same theme including a plethora of accessories.

So What's Required to be in the Game?

People make organisations innovative and they are the key to success, being engaged and motivated by:

1. Having the message of the importance and relevance of the innovation coming from the top.
2. A senior manager with innovation as one of their KPIs.
3. A systematic approach to innovation.
4. Tools for innovation that are easy to understand, assimilate and use, whether for products, processes or services.
5. Recognition and reward systems that support innovation.
6. A means within the organisation to measure the outcome of implementing innovation training.

Implement these simple initiatives and let your people and innovation drive your business.

This article was provided by Holliday Corporation Ltd. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.

MEAssist

To network with other MEA Members or get assistance from our Associate Membership contact:
meassist@mea.org.nz or call 0800 353 2540

MEA's Associate Membership includes a wide range of specialists, consultants and service providers who can assist MEA Members with:

Ø <i>Strategic Business Development</i>	Ø <i>Kanban, Production Planning & Scheduling</i>
Ø <i>Business & Technology Planning</i>	Ø <i>Condition Monitoring - Products & Services</i>
Ø <i>Business Coaching</i>	Ø <i>ERP, MRP Solutions</i>
Ø <i>Market Research & Marketing</i>	Ø <i>Supply Chain Management</i>
Ø <i>Export Marketing</i>	Ø <i>IT Systems – Design & Implementation</i>
Ø <i>Advertising & Branding</i>	Ø <i>Internet Telephony</i>
Ø <i>Communications & PR</i>	Ø <i>Website & Software Development</i>
Ø <i>Import & Export</i>	Ø <i>Industrial Automation & Control</i>
Ø <i>Customs, Logistics & International Freight Forwarding Services, plus 'less-than-container' services</i>	Ø <i>Recruitment & Selection</i>
Ø <i>Finance, FOREX & Banking</i>	Ø <i>Human Resources Management</i>
Ø <i>Accounting, Payroll & TAX</i>	Ø <i>Conflict Resolution & Mediation</i>
Ø <i>Investment Capital</i>	Ø <i>Employee & Immigrant Settlement Management</i>
Ø <i>Insurance</i>	Ø <i>Management, Leadership & Team Training</i>
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Ø <i>Product & Prototype Development</i>	Ø <i>Change Management</i>
Ø <i>Intellectual Property & Patent Registration</i>	Ø <i>Temporary Staff</i>
Ø <i>Total Product Design</i>	Ø <i>Technical Publications</i>
Ø <i>Engineering Analysis, CAD & FEA</i>	Ø <i>Business Graphics & Printing</i>
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	Ø <i>Drug Testing</i>

MEA networks relationships and transactions between manufacturers FREE of charge.

Where the MEA stimulates a transaction with Associate Members a standard charge, or referral fee applies. This is invoiced to the Associate Member providing the service. These fees vary between Associates and reflect a wide variety of pricing models. The fee is constructed to be less than the usual marketing overhead recovery component of an



- Are you based outside of Christchurch, or not able to travel to Manca House?

- Want to meet with your customers or suppliers but worried about the cost of air travel?



We have a solution!

The MEA offers on-line meeting rooms - so you can web conference our forums and join in the on-line conversation without the travel, all from the comfort of your office. Members can also access this service to conduct conferences with suppliers and customers - worldwide.

Contact Trudy on 0800 353 2540 or email trudydiggs@mea.org.nz to find out more.