

Election Starts to Bring Policy Change - More Needed

By John Walley

The political race has come to the fore after the end of the Rugby World Cup. There has been some interesting policy released. Coming on top of earlier releases on fiscal and monetary policy Labour's savings and superannuation policy seems to extend some new thinking and different policy directions. It will be interesting how the different parties see the economy in general and in particular how each will improve conditions for manufacturers and exporters.

The NZMEA for its part has launched a website, www.changenz.co.nz, to give a platform that can express the views of the tradable sector before and after the election. This features the articles from Members of the Association and others concerned about the fortunes of the tradable sector about what economic policy changes they would like to see from the next Government.

I recommend having a look at the site and the contributions made so far. They have covered areas such as monetary policy, tax, early stage business incentives, research and development and depreciation rates, amongst others. More contributions will be going up on the site and we are still open for further contributions - contact the Association if you have an article to submit or would like assistance in developing an article for the ChangeNZ site.

There have been several recent reminders that despite some rhetoric there is a long way to go on rebalancing the economy and providing an economic policy framework that will allow innovative export focused companies to grow:

Credit rating downgrades

The credit agencies have demonstrated an increased sensitivity to ever higher foreign debt - hence the downgrade for New Zealand. A persistent current account deficit drives this result. Low local savings and an appetite for asset backed debt, supported by high offshore borrowing, has created unsustainable deficits over the past couple of decades. Add to that the absence of the necessary focus on the needs of the tradable sector in Government policy, and the result is we earn less and borrow more; where we are should be no surprise.

Trade balance

The trade balance in September was a deficit of \$751 million according to Statistics New Zealand. Imports have risen dramatically indicating that we may be back to the spend and borrow mentality.

European crisis

Instability in the PIIGS (Portugal, Ireland, Italy, Greece and Spain) nations has so far been accommodated but instability in international markets could have a big impact on New Zealand. Already sales in Europe and North America are difficult with weak markets and a high exchange rate. The accommodating 'maintain the status quo and muddle through' approach risks another crisis in Europe or elsewhere significantly raising the cost of funding offshore debt pushing back any potential Government surplus, or worse, causing another liquidity crisis which could threaten the ability of banks and the Government to roll over debt.

November 2011

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Those three points demonstrate that not a lot has changed since the recession opened in 2008. Economic policy still incentivises consumption and borrowing over savings and exports. This must change.

The growth of our tradable sector must be at the forefront of the election debate. There are other ways to focus monetary and fiscal policy and the well-trodden retreat to the "there is no other way" manta is past its use-by-date.

John Walley



Sales Volatility Mirrors Economic Uncertainty

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during October 2011, shows total sales in September 2011 decreased 1.56% (export sales increased by 23.7% with domestic sales decreasing 15.4%) on September 2010.

The NZMEA survey sample this month covered NZ\$635m in annualised sales, with an export content of 44%.

Net confidence dropped to -36, down from the -30 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 100, up from 97.5 in August, the change index (capacity utilisation, staff levels, orders and inventories) went down to 98 from 99 in the last survey, and the forecast index (investment, sales, profitability and staff) is at 101.5, up on August's result of 100.25. Anything less than 100 indicates a contraction.

Constraints reported were 64% markets, 27% production capacity and 9% skilled staff.

Staff numbers for September decreased year on year by 0.9%.

"Sales volatility has continued as this month export sales expanded and domestic sales contracted. It is difficult to get a clear picture on where things are headed; some markets are doing alright at the moment but weakness in the northern economies and ever increasing debt in New Zealand is keeping firms nervous," says NZMEA Chief Executive John Walley.

"The export sales increase can partly be attributed to a slight fall in the New Zealand Dollar since August, but the currency is still a major problem at today's levels."

"Production and skilled staff are still a problem in Christchurch in particular with temporary or smaller sites and the movement of staff away from the area causing problems. Elsewhere markets were the main constraint reported."

"Confidence has now been negative for five months in a row reflecting a feeling that there is no end in sight with both trading partner performance and a less than motivated Government persisting with failing policies."

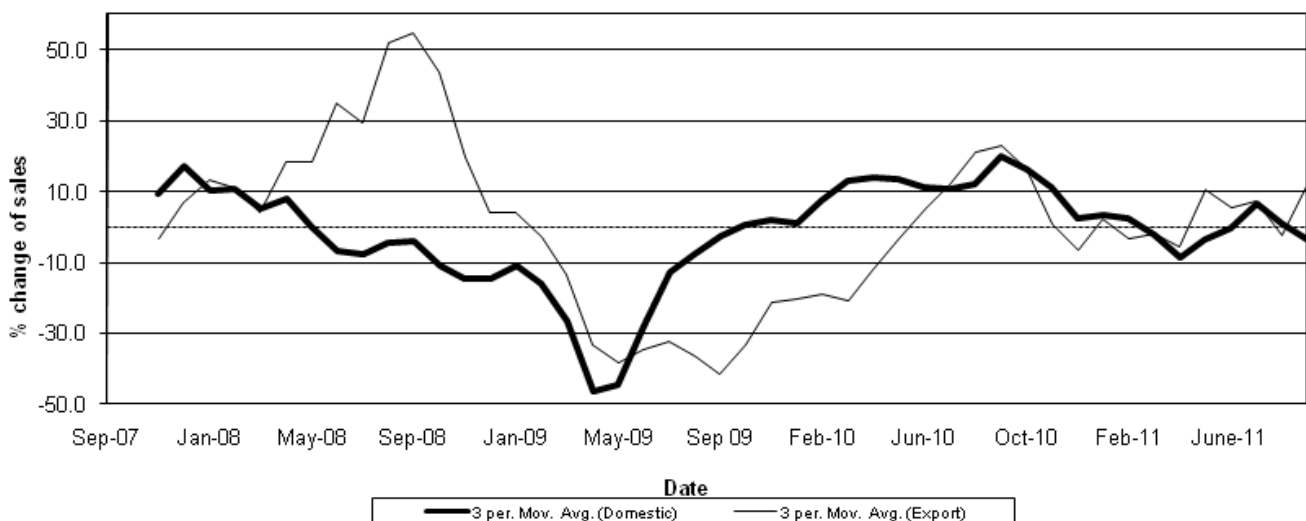
"We have started to see some useful election policy announcements with Labour's savings and superannuation package offering considerable benefit to the economy. We look forward to further announcements from all parties that demonstrate the recognition that the world has changed."

"The tradable sector should be the primary political concern leading into the election as only significantly improved export earnings can dig New Zealand out of our debt hole."

"More about this can be seen at www.changenz.co.nz."

The New Zealand Manufacturers and Exporters Association survey gathers results from members around New Zealand. It provides a monthly snapshot of manufacturers and exporters' sales and sentiment.

Sales
(3 month moving average of % change year to year)



Leave - Don't Just Leave It

Employee entitlements to leave are provided under the Holidays Act 2003. The Holidays Act is a minimum code and while employers can provide employees with entitlements in excess of the statutory minima, it is unlawful to offer employees leave entitlements that are less than those prescribed by the Act.

It is also unlawful to fail to make payments that comply with the Act. Therefore, it makes sense as an employer to ensure that you know what payments you need to make.

Two areas to make sure you understand with Christmas coming up, are public holidays and annual leave.

Public holidays are relatively straight forward. The main issue is whether the public holiday falls on a day that would normally be a working day. If it does and an employee works on any part of that day, the employee is entitled to be paid time and a half (of the employee's hourly rate) for any hours worked. The employee also accrues an entitlement to an alternative holiday (this is the old 'day in lieu' – and is intended to make sure the employee doesn't miss out on a day off). If the employee is not required to work, the employee should be paid the employee's relevant daily pay (what the employee would have earned had they been required to work – but this doesn't include time and a half). A relatively new development is that agreement can be reached between the parties to transfer a public holiday, in whole or in part. So, for example, an employer can agree with an employee of a particular ethnicity or faith to swap say Christmas Day for a day off of more significance to that employee.

It is important to note that there is more than one calculation for annual holidays; the Holidays Act includes different payment calculations for annual holidays, depending on the point during the employee's employment at which the annual holiday is taken. For example, there is a calculation if the employee is permitted to take annual holidays but has not been employed for 12 months. There is a different calculation if the employee's employment ends and they have been employed for more than 12 months (and have therefore accrued an entitlement to annual holidays) but the employee is not entitled to annual holidays for any subsequent 12 month period of employment because the employee has not worked the whole of the subsequent 12 months (this applies to any subsequent 12 month period).

The base calculation, if you like, is set out in section 21 of the Act. The rate is based on the greater of the employee's ordinary weekly pay as at the beginning of the annual holiday, or the employee's average weekly earnings for the 12 months immediately before the end of the last pay period before the end of the annual holiday. 'Ordinary weekly pay' includes productivity or incentive based payments that are a regular part of an employee's pay, but does not include productivity or incentive payments that are not a regular part, one off or exceptional payments or discretionary payments that an employer is not bound to pay the employee. By comparison, an employee's average weekly earnings over the last 12 months is calculated by taking the employee's gross earnings and dividing that by 52 (weeks in the year). 'Gross earnings' is also a defined term in the Act and includes all payments an employer is contractually bound to pay. This expressly includes productivity or incentive payments, including commission.

When it comes to bonuses, these will form part of an employee's gross earnings, unless the bonus payment was entirely discretionary (there is no contractual entitlement). So, when making decisions about bonus schemes and payments, including when they will be offered to employees and how they will be paid, we encourage employers to turn their minds to their contractual status, and to be mindful of the fact that this will impact on whether they form part of an employee's annual leave calculation.

While you might say a bonus is enough on its own – from an employee's perspective, it is even more of a bonus when it increases the value of their annual holidays! We strongly recommend that you review any bonus payments you may have in place, prior to the upcoming Christmas holiday period, to ensure compliance with the legislation.

It's not enough just to give employees a holiday – you must make sure it is paid correctly as well.

This article was provided by Swarbrick Beck Mackinnon. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone us on 0800 353 2540.



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Game Promotes Welding Trade Careers

Finding skilled workers is set to prove a challenge for engineering companies. To meet supply, a new and innovative approach is needed to attract our youth into vocational careers.

One solution is to introduce gaming simulations to students before they leave school. Gaming and school work are not usually two activities you would associate together – but gaming is increasingly making a presence in schools as the new way to engage and educate.

Coined 'edutainment' – combining education and entertainment – TIG Welder - Welding Wall of Death is a welding simulation game which teaches and inspires, but is also fun.



The game was developed by Competenz, the industry training organisation for the manufacturing and engineering sector, and is available to play in Flash and as an iPhone-application.

It supports the bid to increase the supply of tradespeople by exposing students to what a career in the welding trade entails.

In the game, players simulate a series of TIG (tungsten inert gas) welds with the aim to join together a steel wall, strong enough to protect from a deadly swinging demolition ball.

A quiz is embedded throughout the game, ensuring students learn as they play.

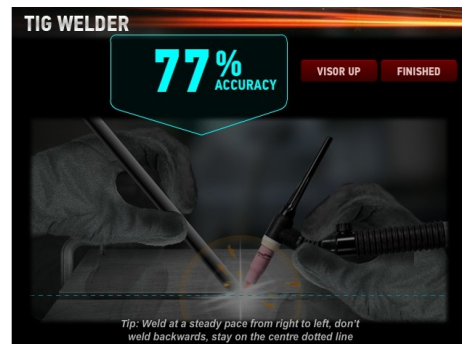
While it's not exactly The Sims, the game is scored on an accuracy basis and requires a fair amount of skill to weld to a standard worthy of a high score.

Welding is one of the key trades experiencing skill shortages. Currently 444 welding/fabrication apprentices are in training on-the-job in engineering companies nationwide, but industry has said it needs 1,412 more welders/fabrication in the next two years. Becoming trade qualified takes up to four years, so supply and demand is at a sizeable imbalance.

TIG Welder is set to roll out in schools early next year and online from late October. It not only promotes trade careers but also educates students about key welding concepts relevant to their course curriculum.

Competenz supports students' learning through the Tools4Work mechanical engineering assessment resources it produces. The Tools4Work resources help more than 400 teachers nationwide to prepare students for a rewarding and productive career in industry.

Students are taught valuable lessons by breaking the 'rules' of the simulation. For instance, failure to put your helmet's visor down results in the message "you have been blinded!" – an extremely relevant health and safety concern for a welder in an actual, non-virtual situation.



The aim of the game is to capture the imagination of young career seekers and to increase the amount of 'fresh blood' entering into trade training. Competenz already has plans for more games to promote trade careers within the industries it serves.

Trades attract those interested in hands-on careers, so it's only logical that the way to learn about these trades takes the same approach.

If you are interested in playing the TIG Welder - Welding Wall of Death, visit www.competenz.org.nz or find 'The Guild – Competenz Alumni Group' page on Facebook.

This article was provided by Competenz. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone us on 0800 353 2540.

CPIT Rugby Research Measures Heartfelt Response

If you feel your pulse quicken when the All Blacks take a five-metre scrum you're not alone. There may be a link between watching rugby and heart troubles such as irregular heartbeats or heart attacks, says CPIT sports science programme leader and The Zone Manager, Dr Peter Olsen.

Peter is conducting research into heart rate and blood pressure changes while watching rugby games in conjunction with cardiologist Associate Professor John Elliott from the University of Otago Christchurch. The timing with the Rugby World Cup is no accident. Peter's volunteers are strapping on monitors before sitting down to watch games at stadiums or in their own lounge rooms.

"I was reading literature on the soccer world cup and there was research indicating that there was an increase in cardiac events during the event. But the research is conflicting and no one has done similar research in rugby or into the difference between watching the game live or on TV, so that's what attracted my interest," Peter says.

"It appears that if your team is playing there is a higher risk of heart attack. If you are hosting a tournament there is a greater risk and if the game is close there is greater risk as well. Factors such as diet are also being assessed because dietary habits can change during the World Cup, and probably not for the best either."

The research will also assess the national database for cardiac events and look for any differences in national rates when the All Blacks play.

Peter has experienced the effect of All Blacks fever. "Yes when they played Australia in Hong Kong and it was a very close game, I felt my heart rate go up."

An unexpected outcome of the research has been the chance to observe how people's heart rates change during aftershocks – as happened prior to a recent quarter final. One participant experienced an increase of 30 beats per minute. The question is whether the All Blacks can beat that?

This article was provided by Christchurch Polytechnic Institute of New Zealand. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone us on 0800 353 2540.

farrowjamieson
wise people...wise move



As the economy continues to improve the Executive Leasing market is the first employment sector to grow. Businesses need to manage their risk concerning employing people on a full time basis but get the benefit of increased capacity.

The capability, flexibility and expertise offered by leased executives covers most functional disciplines and leadership roles. Candidates are often highly experienced with specialist skills and industry knowledge that enables them to achieve faster results.

By way of example we have recently sourced a highly skilled engineering contractor to work on a unique new product development project. This contractor, who also has his own consultancy, is able to work remotely and around his own consultancy commitments which have proved to be a very attractive proposition to both the client and the candidate.

Gaps:

- Budget and headcount freeze dictated from offshore Group/HQ decision but you still have a local need.
- Your hard to fill role is taking time to source the right permanent candidate therefore you need a leased executive in the interim.

By Matthew Twiselton of Farrow Jamieson

The Executive Leasing Market

- Sudden departure creates an urgent need as it may take time to find the right permanent candidate and leased executives are generally available immediately.
- Mass resignations or redundancies due to restructures can create unexpected gaps.

Projects:

- Systems implementations potentially stalling due to business as usual activity/issues and caution around going live.
- Strategic need to take product to market and establish genuine viability of that opportunity.
- Specific candidate skills that are a unique mix together with their personal access to software for instance marketing candidate with graphic design skills/software.
- Office relocation requires additional skill to complete on time and under budget.

This article was provided by Farrow Jamieson. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone us on 0800 353 2540.

Forums / Workshops

Workshops are open to all members of your staff, members and non-members of the NZMEA. For more information and to register on-line visit: www.nzmea.org.nz, select **Events/Training** for the full list of events. Or you can contact us on 0800 353 2540 or email: nzmea@nzmea.org.nz.

Workshop: Value Added Negotiation **Wednesday, 23 November, 8:30am - Auckland**

A highly interactive and practical workshop that helps salespeople negotiate customer demands for better service, delivery, products, pricing, and other issues while meeting their own objectives.

Topics to be covered:

- Planning a collaborative negotiation.
- Analysing negotiating styles.
- Valuing tradable issues.
- Creatively offering options.
- Defining parameters and sequencing offers.
- Handling customer negotiating tactics.

Advantages of the programme offered include:

- Highly interactive, learner-centred training experience.
- Practical, tactical training with "next day applicability".
- Total learning systems help institutionalise and reinforce new skills and behaviours in the field.

Who should attend: This workshop is designed for newly appointed sales representatives or currently active representatives needing a refresher.

For further details on this workshop and to register online visit www.nzmea.org.nz and go to Events/Training.

Workshop: HSNO Approved Handler Training **Wednesday, 7 December, 8:30am - Christchurch**

If your organisation uses or stores hazardous substances in excess of the trigger quantity, the HSNO Act requires that you must have an "approved handler" available at all times to offer advice, training, or assistance to those using or handling the substances. This one day workshop has been specifically designed to provide the statutory knowledge requirements of the HSNO Act and the role of an approved handler. Workshop attendees are expected to share their knowledge and interact with other attendees and the presenter.

The training covers the principles and application of the HSNO Act, related Regulations and Codes of Practice, and the generic role and responsibilities of an approved handler. This information based training is recognised with a certificate attesting to the training completed. The Christchurch City Council Compliance Officers, who are Test Certifiers, recognise this training as satisfying the requirements of approved handlers to have an understanding of legislation, relevant standards and their role and currently accept TriEx's certificate as evidence of suitable training.

Who should attend: Organisations that use or store hazardous substances.

For further details on this workshop and to register online visit www.nzmea.org.nz and go to Events/Training.

Workshop: Key Account Selling/Strategic Development **Wednesday, 7 December, 7:30am - Auckland**

This workshop is designed to help move salespeople from tactical sales calls to long-term strategic selling. It enhances the sales force's ability to identify opportunities, set long-range goals, develop strategies, and execute action plans for key accounts.

Topics to be covered:

- Analyse major accounts to identify strategic opportunities.
- Establish sales, strategic, and "value" goals for accounts.
- Implement an alignment strategy to strategically position themselves as a preferred supplier.
- Allocate resources according to account potential.
- Access vertical and horizontal decision-makers and influencers.
- Interface with top-level executives.
- Employ strategies such as negotiating, team selling and consultative selling.
- Develop and execute a strategic action plan for every major account.

Who should attend: This workshop is designed for experienced sales representatives and business development managers working with major accounts.

For further details on this workshop and to register online visit www.nzmea.org.nz and go to Events/Training.

Workshops/Programmes

Workshops are open to all members of your staff, members and non-members of the NZMEA. For more information and to register on-line visit: www.nzmea.org.nz, select **Events/Training** for the full list of events. Or you can contact us on 0800 353 2540 or email: nzmea@nzmea.org.nz.

Workshop: Business Ethics

Wednesday, 12 December, 8:30am - Christchurch

This workshop serves to highlight how important it is for companies to address ethical issues and second how companies can in practice go about developing and enforcing ethical standards that they will need to embrace when doing business.

The course will introduce the golden rule of ethical behaviour, that being "treating others as you want to be treated".

Topics to be covered:

- What is business ethics?
- Business ethics myths and benefits.
- Guidelines for managing ethics.
- Roles and responsibilities.
- Codes of ethics and conduct.
- Policies and procedures.
- Resolving ethical dilemmas.

Who should attend:

- Anyone interested in thinking about business ethics.
- Professional organisations that want and need to update their understanding of business ethics.
- Employees, managers and business owners who want to understand how organisations can put ethical commitments and processes in place.
- Those who have a responsibility for producing and implementing an ethics policy.
- Senior managers and directors requiring an understanding of business ethics.

For further details on this workshop and to register online visit www.nzmea.org.nz and go to Events/Training.

National Diploma in Competitive Manufacturing

10 full days over 10 months

Starts Wednesday, 8 February, Christchurch

Starts Thursday, 9 February, Auckland

Starts Wednesday 22 February, Tauranga

This programme utilises the proven Lean Manufacturing principles and methodologies to generate continuous and sustainable improvements for business. Whether it's lead time improvements, cost reductions, identifying waste, quality and customer service improvements, improved communication between management and employees or inventory reductions, businesses experience significant results from implementing Competitive Manufacturing in the workplace.

The Competitive Manufacturing programme covers three key areas:

- Designing your Competitive Manufacturing strategy.
- The tools and techniques to implement strategy and drive improvement.
- Leading a Cultural Change programme.

The learning and coaching process is aimed at achieving:

- Reduction in inventories and production costs.
- Enhancement of yield and quality.
- Reduction in changeovers/delays.
- Increased rate of productivity improvement through employee participation.
- Enhance morale and motivation of staff.
- Increased response rate to market.
- Set targets to boost, restore and significantly enhance the competitiveness of the organisation.

Who should attend: This diploma is aimed at senior, middle managers and team leaders who are or will be responsible for creating and leading the implementation of a Competitive Manufacturing strategy in their organisation.

For further details on this programme and to register online visit www.nzmea.org.nz and go to Events/Training.



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Designing a Business Model that Captures Value

Business model is a term that originated in the Information Technology sector. However, it is now used to describe how firms make money in specific product/market areas i.e. who does the company collaborate with, how is the offering distributed, how does the company connect with the end customer, how does it generate revenue etc.

The design of a business model is a creative process that requires an understanding of digital technologies, intellectual property, documentation of commercial terms and brand strategy. The idea is to design the business model so that multiple revenue streams can be created. This requires thinking beyond the sale of a product i.e. who else can benefit from the company's communication (advertising or referral revenue streams), can knowledge be sold (subscription or licensing revenue streams), what is the after sales service model (maintenance fee revenue streams).

A good business model is difficult to copy. It requires "bundling" of multiple parts i.e. supply agreements, distribution agreements, social media campaigns, database management, trademark strategy, patent strategy etc.

A good business model will increase your competitiveness and make your business more sustainable. If you think it is time to revisit your business model then here are some steps to get you started:

- Go through your current customers and experiment with ways of grouping them i.e. demographic, buying patterns, degree of contact, propensity to refer, external interests etc.
- Find out if any of these customer groups have any common interests (this will require a short survey).
- Now search the world for a provider of knowledge around the common interest area and ask them if you can use some of their information in return for promoting their brand.
- Try using digital technology to distribute the new value i.e. a newsletter, utube video, blog.
- Now consider asking for value in return for the value provided i.e. ask your customers for referrals, experiences with products etc etc.

This is a very small change in your business model. Once you experience success, you will want to do more.

This article was provided by Everedge IP. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone the Association on 0800 353 2540.



This year we have recorded some of our forums in a video format that allows you to view the key content with an audio commentary to give more detail. These are essentially a combination of a powerpoint presentation and a presenter speaking edited as a video. This is now enabling companies from across New Zealand to view content shown at any of our event venues.

If you would like to see the videos, head to www.nzmea.org.nz and click on the public comment icon followed by the video presentation icon.

While nothing compares with actually attending the event, the screencasts will give an overview of the content covered.

This article was provided by NZMEA. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone 0800 353 2540.

By Peter Hume of NZMEA

Screencast Video Presentations



SouthMACH 2011: Exhibitors Ensure Trade Show

The fourth SouthMACH was successfully staged at CBS Canterbury Arena in Christchurch on 17 and 18 August 2011.

Since the show's inauguration in 2005, SouthMACH has become an important reference point for the industry, providing suppliers with the opportunity to showcase their most up-to-date machinery, technology components, materials and services to a well-respected engineering and manufacturing sector.

SouthMACH 11 featured the latest engineering, manufacturing and machine technology innovations from New Zealand and Australia. The overall event was deemed a success by both exhibitors and visitors – despite the challenging weather.

After the earthquakes, nobody would have predicted another round of nature's nasty tricks, but wait there was more...a blizzard, the likes not seen since 1945.

Ninety exhibiting companies built up their stands ankle deep in snow with the products they managed to secure from closed freight companies and closed showrooms and warehouses; it was impressive to see how they managed it.

Some exhibitors flew in two hours prior to show opening with machinery still being assembled last minute. This did not deter the visitors who queued at show reception for their entry badges and show packs.

Special mention must be made of Ray Holley from BTR Ltd. When another postponement of SouthMACH was looking likely, Ray cheerfully commented "Don't worry, she'll be right by Wednesday" and sure enough he was correct.

Ray and his staff worked tirelessly with the exhibitors to ensure the show's success and without their positivity and professionalism, SouthMACH would not have been the great event that it was.

Under less than ideal circumstances and battling dangerous driving conditions, the 2,431 quality trade visitors arrived at the show from far and wide.

Murray Lonergan of WFM Ltd was the first to arrive at the show and won a Macpac jacket for his efforts.

Murray said: "I went to the 2011 SouthMACH show from Auckland to attend mainly the seminars and found them very informative as well as the static displays. I was the first attendee to arrive at the show and received the jacket as a prize. This was much appreciated and was used extensively during my stay in Christchurch as this was when the big snow fall arrived."

A total of 27 quality seminars were run by exhibitors and industry experts (in association with the New Zealand Manufacturers and Exporters Association) across the two show days.

64.9% of visitors surveyed rated the seminar experience 'Definitely' interesting and worthwhile. Lean Manufacturing was the most popular seminar topic with 28.3% of respondents stating they had attended.

In order to provide a valuable networking opportunity away from the lively trade show environment, an exhibitor and VIP function was kindly sponsored by Velocity Trade. Held on the evening of Wednesday 17 August at the close of the show, the function was enjoyed by all who attended.

Thank you to the exhibitors who built a great show under adverse conditions and thank you to the visitors who made it to the show under less than ideal situations.

SouthMACH 13 will be held at CBS Canterbury Arena on 29 and 30 May 2013. Exhibitors, visitors and the organiser will all be hoping for no earthquakes and no blizzards!

This article was provided by Hayley Media. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone us on 0800 353 2540.



Survey of Business Conditions

The NZMEA would like to thank it's members that submit their Business Survey every month.

The results and comments from the survey inform much of our comment on the economic climate and provide a valuable source of data. Your time and participation is appreciated.

If you would like to participate please contact the David Norris or David Mohn to discuss or call 0800 353 2540.

Regrets, I've Had a Few.....

It might have been in the past that you weren't particularly "bovvered", but it's probable that you are now. For most taxpayers, from 1 April 2011 you are not able to claim depreciation on buildings with an estimated useful life of 50 years or more. The definition of the meaning of a building has been tightened up and clarified, with a definition of "commercial fit-out" introduced confirming that commercial fit-out would continue to be depreciated.

While historically it would have been efficient to strip-out commercial fit-out from the building as:

- Fit-out is ordinarily depreciable at a higher rate than buildings (thereby providing a timing advantage for tax purposes); and
- A loss on disposal of a building is not normally allowed, a loss on disposal of fit-out would be.

Many taxpayers wouldn't have done so (or to the full extent permitted) on the basis it was an onerous exercise and far simpler to leave as is; after all, it was predominantly only a timing advantage in any event.

With the removal of depreciation on buildings it is now "not just a timing advantage" and if you haven't stripped fit-out from the building proper this is an absolute cost with the rate of depreciation on buildings reducing to nil.

The problem clearly rests with those taxpayers who currently own buildings, but didn't separately identify fit-out from the building (if you are looking to purchase now, you'll want to identify and record fit-out separately). As no depreciation is available on buildings, the knee jerk reaction is to minimise this impact and re-characterise the fit-out retrospectively, at least that minimises the depreciation blow as much as possible, right? Wrong.

The IRD has recently released commentary highlighting their view of retrospective re-characterisation of buildings into the building proper and it's fit-out. They don't like it. It is considered that a taxpayer had two equally valid choices at the time of purchase from which to base their depreciation claims:

- Claim depreciation based on the cost of the building with the fit-out costs embedded (which would be nil, under new rates for buildings); or
- Separate fit-out from the building proper and depreciate accordingly.

While the IRD is bound to exercise discretion and correct genuine errors, if you have chosen the former of the two options there is no error and the Commissioner would not allow you to re-characterise the asset down the track (this is referred to as "regretted choice").

So what do you do? There is some concessionary treatment for those who might now regret their decision. Going forward if you haven't separately identified fit-out you are eligible to claim a deduction equivalent to 15% of the book value of the building (commercial buildings only) at an annual rate of 2% (note there are some adjustments that need to be considered). You won't be subject to any recovery income rules or eligible to claim losses on the 15% pool following a future disposal of the building.

Just don't regret twice (after all while Frank had a few, there were still too few to mention)...if you look to re-characterise then be prepared for IRD challenge. It might be best to do it their way, not your way.

This article was provided by KPMG. If you require further information relating to this topic please contact us on email: nzmea@nzmea.org.nz or phone 0800 353 2540.



Dr Alan Bollard, Governor of the Reserve Bank of New Zealand

All members are invited to an informal meeting with Dr Alan Bollard, Governor of the Reserve Bank. This annual event is your opportunity to share and exchange views with the Reserve Bank. To register visit www.nzmea.org.nz/events.aspx.

Christchurch

Date: Friday 27 January 2012.
RSVP: By Friday 20 January 2012.
Time: 2.45pm - 5.00pm.
Cost: No charge.
Venue: George Hotel, 50 Park Terrace

Auckland

Date: Wednesday 15 February 2012.
RSVP: By Wednesday 8 February 2012.
Time: 5:00pm - 7.00pm.
Cost: No charge.
Venue: KPMG Boardroom, Ground Floor, 18 Viaduct Harbour Avenue

This meeting is "off the record" to encourage open and frank discussion.


MEAssist

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

Our Associate Membership includes a wide range of specialists, consultants
and service providers who can assist Association Members with:

Management and Human Resources Recruitment and Selection Operations Management Project Management Conflict Resolution & Mediation Employee and Immigrant Settlement Management, Leadership & Team Training Temporary Staff Employment Law Change Management Training Analysis ERP, MRP Solutions	Manufacturing Efficiency Lean Manufacturing Programmes Theory of Constraints Competitive and Agile Manufacturing Factory and Plant Efficiency & Utilisation Supply Chain Management & Certified in Production and Inventory Management (CPIM) Kanban, Production Planning & Scheduling Maintenance and Asset Management QC, QS and TQM Industrial Automation & Control
Business Governance Risk Management Business Sales & Valuation Strategic Development Business Coaching Company Boards Business and Technology Planning	Marketing and PR Advertising and Branding Market Research and Marketing Export Marketing Communications and PR Strategic Pricing
Finance Accounting, Payroll and Tax Debt Collection FOREX and Banking Investment Capital Insurance Services	Product Design and Development Research and Development Services Product and Prototype Development New Product Design Process Engineering Analysis, CAD and FEA
Safety and Compliance Security Advice, Internal & External Drug Testing and Policy Health and Safety Systems & Training Energy, Water & Waste Auditing	Intellectual Property Knowledge & Information Management Intellectual Property Risk Assessment and Commercialisation Intellectual Property Patent Registration
Information Technology IT Systems – Design & Implementation Website and Software Development Web Content Creation	Import and Export Certificates of Origin Customs, Logistics and International Freight Forwarding Services, Including Part Container Services International Travel

We facilitate relationships and transactions between manufacturers and exporters free of charge. Where the Association facilitates 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 is constructed to be less than the usual marketing overhead recovery component of an Associate's pricing.



Membership Benefits

Representation: Your views having a platform, face to face with politicians, documented in submissions and discussed in any number of different gatherings.

Awareness: The opportunity to attend member only, no charge events, with leading speakers on issues of interest to manufacturers and exporters.

If you have any questions regarding our Membership Benefits please contact us:
 website: www.nzmea.org.nz, phone: 0800 353 2540, email: nzmea@nzmea.org.nz



Events and Training

www.nzmea.org.nz/events.aspx

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Programme: CPIM Strategic Management of Resources (Christchurch)	2 Workshop: Key Account Selling / Strategic Development (Christchurch)	3 Programme: CPIM Basics in Supply Chain Management (Christchurch)	4
November				
7 Programme: CPIM Detailed Scheduling and Planning (Christchurch)	8	9 Workshop: HSNO Approved Handler Training (Christchurch) Forum: Succession for Business Owners (Christchurch)	10 Programme: CPIM Basics in Supply Chain Management (Christchurch)	11
14 Programme: CPIM Detailed Scheduling and Planning (Christchurch)	15 Programme: CPIM Strategic Management of Resources (Christchurch) Workshop: Telephone Selling (Christchurch)	16	17 Programme: CPIM Basics in Supply Chain Management (Christchurch)	18
21 Programme: CPIM Detailed Scheduling and Planning (Christchurch) NZMEA CEO Forum (Auckland)	22 Programme: CPIM Strategic Management of Resources (Christchurch)	23 Workshop: Value Added Negotiation (Auckland)	24 Programme: CPIM Basics in Supply Chain Management (Christchurch)	25
28	29	30	December	
5	6	7 Workshop: HSNO Approved Handler Training (Christchurch) Workshop: Key Account Selling / Strategic Development (Auckland)	8	9
12 Workshop: Business Ethics (Christchurch)	13	14	15	16
19	20	21	22	23 NZMEA office closes 5pm (reopens 8am 16 January 2012)
26 Boxing Day	27	28	29	30

New Zealand Manufacturers and Exporters Association

 253 Cambridge Terrace, Christchurch 8013, New Zealand
 HERA House 17 – 19 Gladding Place Manukau City Auckland 2104

 PO Box 13152, Armagh, Christchurch 8141, New Zealand
 PO Box 76134 Manukau City Auckland 2241, New Zealand

 Phone: +64 03 353 2540
 Fax: +64 03 353 2549
 Freecall: 0800 353 2540

 mea@nzmea.org.nz
 www.nzmea.org.nz
 www.realeconomy.co.nz
 www.johnwalley.co.nz