



MANUFACTURERS AND
EXPORTERS ASSOCIATION

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Digital Strategy 2.0 Submission
Digital Development Group
Ministry of Economic Development
P O Box 1473
Wellington

Email: submission@digitalstrategy.govt.nz

Dear Sir/Madam

Background

The New Zealand Manufacturers and Exporters Association (NZMEA) represents the interests of manufacturers and exporters throughout New Zealand.

The NZMEA is New Zealand's only focused, independent voice for manufacturers and exporters. NZMEA members make over \$2.0 billion in sales and have an export value of around \$1.0 billion. The Association can trace its beginning to the early history of New Zealand. As a legacy of the hard work and careful financial management of the past, we have a significant asset base that enables our independence and extends our activity.

The NZMEA is independent; we do not seek or receive funding from local or central government. We are not associated to any other business group.

The health of the elaborately transformed manufactures, particularly, and exporters generally, acts as the "canary in the coalmine", indicating the long-term prospects for our whole economy. In a similar way, the health and development of our smaller companies has a major role to play in the development of the New Zealand economy.

Elaborately transformed manufactures comprise over 30% of New Zealand tradeable exports, with sector sales totaling over \$30 billion, and total national employment numbers of around 170,000. New Zealand manufacturers face the ever-increasing onslaught of the cost of local regulation and global competition from low cost countries, without any real support from the policy framework.

The historical reliance that New Zealand has placed in the primary sector and basic manufactured goods has seen New Zealand slip down the rankings of the Organisation of Economic Co-operation and Development (OECD) from 5th in 1950 to 21st in 2005, between Spain and Greece, well into the lower middle bracket of global income per capita.

New Zealand has grown more slowly than other countries due to the dependence on the primary sector. The manufactured goods sector of the internationally traded economy has grown much faster.

The New Zealand Manufacturers and Exporters Association would welcome the opportunity to speak to this submission.

We have canvassed our members who operate growing software as a service (SaaS) business models. These businesses are technology capable and have the greatest business exposure to network performance. If the network does not deliver what they need then any digital strategy is little more than political window dressing.

The debate around fibre to home is not really a business issue. Current network speeds are adequate for most business and domestic applications – other than entertainment – and the focus should be on increasing the uniformity of current bandwidths as the number of connection increases expands.

Consideration of this strategy must take place against the background of falling information and communications technology (ICT) exports over the past ten years or so. On that basis, the general response must be that unless Digital Strategy 2 will be fundamentally different that Digital Strategy 1, can anything other than continued contraction the ICT sector be anticipated? What is different now, and what is really needed, should be the starting questions.

It is not known how many businesses would be created if we had (say) a 10Mbps pipe available - by definition they do not exist at the moment, and so these (conceptual) businesses cannot be among the businesses we have surveyed. However, if the digital strategy were a capital spend proposal to pursue a particular outcome, it would be incumbent on those making the proposal to quantify an answer to this question. Indeed it is irresponsible to ask for this much money without doing so. This justification should be a much stronger part of any strategy document; digital or otherwise. We would want to see projections and reasoning for future uptake that justify the conclusions presented, not just broad brush comfortable language.

In summary our position is:

- Reliable, universally available 2Mbps DSL service is more important to present members than an unevenly available faster service.
- The strategy needs to be content independent, and so content issues should be dealt with elsewhere, by the community, by industry, not Government.
- Avoid a strategy that relies on or anticipates Government picking winners - Government has a poor record in that regard and are required to account for public money to an extent that they are unable to engage with the most innovative category of entrepreneur.
- Likely uptake rates should be more rigorously quantified before committing significant capital expenditure against the projections (speculations) of the strategy.
- The headline capacity of individual subscriber connections has to be matched by the "backhaul" capacity of the network - there is no point in having a notional 20Mbps connection to a network so heavily loaded that it can only deliver 2Mbps.
- Project the uptake based on transparent reasoning, justification need to be more than an act of faith.

DIGITAL STRATEGY – FROM A SAAS PERSPECTIVE

“Speed might be desirable, but low cost, reliable, robust and reasonably constant performance and access are vital. On a daily basis we see lag issues, and huge variations in speed of access and micro drop-outs. As we're accessing our customers and SaaS servers (in the US) remotely, if the local loop has problems, we're essentially out of business sitting on our hands”.

“We can run a global software SaaS company from Rural Canterbury and New Plymouth with thousands of users on only a 2Mbps connection for our access – many successful companies in New Zealand have done it, but we rarely see 2Mbps – often it's as low as 300kbps – speed is good, but reliability of infrastructure and solid backup infrastructure is key to business success”.

“No matter how fast you make the network, the most restricted point defines the link speed, be it the last few feet copper wire, old exchanges, of particular features like mains and even electric fencing interference. We have 3-4Mbps down speed rurally, but our neighbour on one side can't get broadband as his mains power is too close in the same trench as the phone line. And our other neighbour's connection drops continuously as he gets line interference from his electric fence”.

“How will the Digital Strategy address these issues? Given there was a 20 to 100Mbps connection at the gate, who of us would take the trouble to make a connection?”

“Speed does not equal success. SaaS models are succeeding on the global stage right now in the face of variable performance; first deliver currents speeds but with uniform performance before grandiose bandwidth expansion”.

“It is worth noting that more access and speed might just equal more bad Internet ideas – failures delivered faster”.

COMMUNITIES

The discussion around 'enabling communities online and with technology' is filled with the comfort language of good intent; however trying to force the creation of online community segregated portals is a bad move and waste of money. Online community groups are organic and cannot be forced. Online communities change so frequently that today's hot community can be dead in six months time. They come and go and change – let communities happen organically, please step back and enable a pluralistic approach.

PRODUCTIVITY

The discussion on productivity misses the point that for most applications (other than graphics), ICT is an enabler of business models, not the reason for the business. In regard to communities, the on-line world is fluid and in constant flux, driven by forces from all over the world. What wins today, loses tomorrow and the next big thing is easy to see in hindsight, but much more difficult to pick before the event.

However, even on-line, the business of finding, closing, supporting and keeping customers remains much like that of the old world. Discussions on a Digital Strategy should not disregard this simple truth. Much of what is written implies that the basics no longer apply – this is very dangerous - they do.

Pluralism applies in spades on-line; so policy must be to “clear the track and stay out of the way”, enable content but don’t attempt to force it. Don’t try to pick winners; you will almost certainly fail, but support winning behaviour via targeted support to companies that can clearly demonstrate progress with more international customers and growing revenues.

CONNECTION

- *What do you think of the new connection goal – is it ambitious enough?*

The goal misses the international dimension of the network. Every connection can only run at the speed of the most restricted part of the intervening network, ignoring the international pipes does nothing for global business from New Zealand. Increasing the local traffic speed without thought of the impact on international traffic might well choke business bandwidth with entertainment delivery – that will not be helpful for international SaaS business.

- *What other key priorities in this focus area (if any) would you like to see considered?*

Better to lift the data rates in a way that does not swamp existing players. A target of universally accessible DSL at 2Mbps would be better than many at 20Mbps and some less – avoid swamping business use with entertainment traffic.

- *How well do the identified challenges and actions contribute to achieving the priorities?*

That depends if the goal is simply lots more bandwidth or more bandwidth well distributed.

- *What other specific challenges and actions (if any) do you think should be considered?*

Stop using the high level comfort language, “promote”, “facilitate”, and start writing in action language “this will be done by then”. For example, “competitively priced (versus our trading partners), reliable 2Mbps will be available to 90% of New Zealanders by 2010” to do that we will...

- *By whom and by when?*

Policy and regulation matter for Government once the goal is solid.

CONFIDENCE

- *Digitally capable and confident New Zealanders transforming our economy, strengthening national identity and enhancing sustainability.*
- *Digitally capable New Zealanders will lift our economic performance and build more cohesive communities.*

This is a good example of the “comfort language” used throughout the document that is fluff and nonsense. Motivated passionate people will find a way to express community by whatever means possible. Digital strategy should be focused on economic outcomes that will lay the foundation of broader use in society. What follows is a direct quote from one of our respondents:

“Being digitally capable has no direct link to economic performance. Individuals may be very digitally capable – say a gamer and massive geek, but productive? Heads may be too much in the technology, not what it might be able to do – technology or digital capability is not an end it is a means to an end, which may or may not be productive”.

“The Gen-Y people coming through nowadays are more digitally capable than any other generation, but they can also be ambitionless, self-seeking, lazy and non-productive. Most Gen-X’ers I know, treat an 8-hour workday as a 12-hour work day and focus. Almost every Gen-Y I know of, or have heard about, get 3-4 hours of productive work in an 8-hour day (if you’re lucky) and go home on the dot. When they should be working they’re sneaking onto Facebook, You Tube, The Daily show, Twitter, Myspace, Bebo etc.”

“Communities are developed by ‘passionate’ New Zealanders, not necessarily the ‘digitally capable’”.

- *What other key priorities in this focus area (if any) would you like to see considered?*

Look for businesses currently making it happen in terms of the economy and support them.

- *How well do the identified challenges and actions contribute to achieving the priorities?*

Not that well, too much politics. Recast the goal; keep it simple and focused:

“Confidence in infrastructure – a bandwidth of 2Mbps up and down, uniform, reliable and low cost (against international benchmarks) available to most New Zealanders by 1st January 2010.”

- *What other specific challenges and actions (if any) do you think should be considered?*

Focus support on the infrastructure: reasonable – uniform – reliable – cost dimensions, look at special encouragement to those businesses that can show growth in revenue, give them a priority response when the infrastructure becomes their constraint.

Offer broader support when problems happen offshore: for example, servers in Europe are more expensive than those in the US, and the trans-Atlantic link is a constraint, so help could be made available. This will be very different case by case, but such help delivered to constraints would be enable “productivity” and support growth far more than would follow from the Digital Strategy document as it stands.

- *By whom and by when?*

By Government - immediately. These are policy matters, pragmatic targeted policy will help. Fluffy comfort language built on soft goals will not.

CONTENT

- *What do you think of the new content goal – is it ambitious enough?*

It is entirely devoid of ambition and has grasped the wrong end of the stick. Content should not be part of the Digital Strategy. Content will spring from the right infrastructure and education of all potential users. It cannot be forced.

The online domain is an environment that has little inertia, global forces apply anywhere, and as a result, evolutionary forces in that environment are savage and fast; far too extreme for any centralised strategy to be useful in the content domain. Pluralism should be encouraged and supported; there is no other effective way in such a savage environment.

The talk of yet another portal and yet more research misses this point. The on-line world just moves too quickly and we have Google to find what we need. Digital media, entertainment has its own drivers. Most of the things discussed under content will happen spontaneously if enabled by an appropriate platform. These pressures will select the survivors; otherwise they will be consigned to history by the forces of on-line evolution.

- *What other key priorities in this focus area (if any) would you like to see considered?*

A simple platform goal, delivered quickly will enable content, don't try to drive it or pick winners on-line, evolutionary forces will do that faster and more effectively than any other process.

- *How well do the identified challenges and actions contribute to achieving the priorities?*

They don't.

- *What other specific challenges and actions (if any) do you think should be considered?*

The real companies, those who have demonstrated growth and profits in software and SaaS should be properly consulted on what they think should lead the Digital Strategy. None of the companies we asked could identify any concrete action in the document that would help them in any noticeable way.

- *By whom and by when?*

Understand where policy can do something and where it can't; government can do much more by doing less in many cases.

COLLABORATION

- *How important do you think collaboration across sectors is to achieving our digital potential?*

Not important, focusing on content based collaborations is only supporting incumbents, innovation is not to be expected from incumbents.

- *Apart from the ones already identified, what other collaboration partners or sectors (if any) are vital to achieving our digital potential?*

Not a great deal is expected from the collaborations identified and we do not see any others worthwhile pursuing.

- *What unique contribution do you see for Māori, for communities, for business groups, for local government, for researchers or for other contributors you identify as having a key role?*

Given an accessible platform, there is no doubt that Māori and all other groups will find a way to create a unique on-line identity. They will, of course, be subject to the same forces as all the other players and will have the same measures of success and failure.

Uniqueness follows from content not platform. Better technology simply removes the blockages from the running track, those on the track still have to run and win.

- *What would you like to see the overarching sector forum focus its work programme on?*

No, overarching or any other sort of forum is necessary, develop a simple infrastructure goal, deliver it and get out of the way.

ACHIEVING OUR DIGITAL POTENTIAL

- *Using digital technology, what contribution will you make to improve our productivity (achieving a creative, knowledge-based, high-income economy)?*

Installed software or SaaS is fundamentally about productivity or entertainment. Entertainment has its own rewards but other software must contribute value from productivity to support the sale and purchase transaction – the transactional nature of the supply contract does not change on-line. The software supplied by our respondents is focused on productivity and value or they would not be able to sell it.

- *Using digital technology, what contribution will you make to enriching and valuing New Zealand communities and cultures, and promoting our unique national identity?*

By building our own community of interest and supporting and promoting the views of that community, done well we will continue to receive the support to do it, done badly we will be consigned to history.

More generally, software developers tend to focus on global tools suitable for as broad a market as possible. In fact in a global market it is generally good to be seen as American in America, Australian in Australia.

- *Using digital technology, what contribution will you make to achieving sustainable growth as a nation?*

Almost all our Association does in based on ICT. We think we lead the use of such tools in the Association domain. Look at www.mea.org.nz and you might agree. We do more and more with better tools dealing with repetitive activity, freeing up the time to do other things thereby lifting productivity.

Generally software producers sell to and service a global market based on value, SaaS has to do this well, and is perhaps the lowest inertia business model yet devised.

- *What contribution do you think others need to make to achieve our digital potential?*

Government should stop picking winners and offer more targeted support to business prepared to take on more business risk. There are examples of businesses that compete on the global stage without large investment – just a solid business idea and lots of hard work. There are many good ideas, but most are afraid of taking the risk. They live in fear of exchange rate speculation and local costs impacting on returns for their risk.

The Digital Strategy should be based on, and informed by, the companies that have done or are in the process of achieving their (digital) potential on the world stage, not the fluffy comfort language evident throughout the document.

On the measure of growing ICT exports, the Digital Strategy 1.0 failed and it is hard to see how the Digital Strategy 2.0 offers anything other than more of the same.

Please, stop trying to pick winners and start supporting winning behaviour. Forget about content and focus on a competitively priced, reliable, bidirectional 2Mbps ubiquitous platform.

Yours sincerely

A handwritten signature in blue ink that reads "John Walley". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

John Walley
Chief Executive