

Cracking the Gumnut

WINNING IN AUSTRALIA

Going for Gold

Australia is often the first place New Zealand businesses look to when they're thinking about expanding into overseas markets – and there are plenty of reasons why they should.

Australia presents a massive opportunity. With a wealthy population more than six times larger than New Zealand's, it's a huge market by our standards.

It's close. The Tasman Sea connects us like a highway to our closest neighbour and it's a short trip – you can get there and back in a day.

It's familiar, too. Australians are like us in so many ways. We have a common language. We both enjoy a stable political and economic environment. And importantly, much of our history is inextricably linked with Australia's.

But there are also significant differences, and with those differences come significant challenges.

To help with understanding those challenges and how they can be overcome, in August 2014 ANZ co-sponsored 'Cracking the Gumnut' – a forum designed to help New Zealand companies do business in Australia. Our co-sponsors were Kea and BDO – two organisations that also have a long history of helping Kiwi companies succeed

across the ditch. This paper sets out some of the key learnings from the forum, along with some of our own experience and insights.

Just like any new business venture, doing business in Australia does have challenges. But they don't need to be roadblocks. The key is to do your homework, know what the challenges are, and have a plan to address them. It's also about reaching out, making connections and finding the right people to help you.

The rewards for success can be high. We hope you find this document useful in helping you 'crack the gumnut' and achieve your business ambitions across the Tasman.



Graham Turley
Managing Director, Commercial & Agri, ANZ

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Lessons from the frontline

If you're thinking about expanding into Australia, the best place to start is to talk to Kiwis who have been there, done that - and have the scars to prove it.

A feature of the 'Cracking the Gumnut' trans-Tasman forum was the opportunity to hear from Kiwi business people who have succeeded in Australia. Here are some of their collective insights on their perspective, and what it takes to win across the ditch.

1. Aussies play hard. Really hard

As Kiwis, we admire and look to emulate the competitive nature of Australian sports teams. They're always tough competitors and they never give up – and it's the same in the business arena. Yet many New Zealand businesses fail to anticipate that, and underestimate just how aggressive and competitive the Australian market can be.

Succeeding in Australia is a lot about having the right attitude. You need to be resilient, because you will get a few knocks along the way. You need a great deal of emotional and intellectual rigour, and you need to be well prepared. But Aussies also respect fighters – and if you're resilient enough you will succeed.

2. Success in New Zealand means little in Australia

Aussies don't generally think much about New Zealand. We're like a little brother or sister that they don't take too seriously. So having built a successful business here doesn't automatically give you credibility in the Australian market – unless you also have a proven record in other, larger markets like the US or UK. To prove your chops, you'll need to show you can perform consistently in Australia.

3. Be distinctive

If you're trying to expand into the Australian market, you need to be stand out. Piggybacking on New Zealand's clean and green branding is not enough – in the Australian market that space is already claimed by Tasmania. You need to establish your own position in the market and demonstrate that you are useful and relevant in your own right. Make sure you have a distinctive and well thought out proposition, and show your customers exactly what you can do for them.

4. It takes time to crack the gumnut

The length of time it can take to get established in Australia is often a major source of frustration. For example, getting meetings with decision-makers is often much harder than in New Zealand. It's a bigger, less intimate market, and Australian organisations often have many more layers of hierarchy to work through.

With both Federal and State requirements to meet, compliance can be costly and more time-consuming than in New Zealand. The Australian business environment is also a relatively litigious one, and competitors are typically not shy about using a range of means to make it more difficult and drive up costs for new entrants. Factor these considerations into your planning, and be patient.

"Australia can be a very lucrative market – but you need to go in with your eyes wide open."
– Steve Fullerton

5. It's not a single market

Australian states are quite different from each other in many ways. They have their own regulatory and legislative requirements. Cultural nuances differ – in Victoria for example, you need to follow an AFL team (or at least be able to talk about the game). Each state also has its own often fierce brand loyalties and Australians can be quite parochial. Having access to local networks and resources that help you understand and manage those differences is crucial.

"Don't think Australia is one market. Every Australian state, and every state capital, has its own cues." – Peter Biggs

6. It's all about relationships

In Australia, building relationships is vital. Your most senior people have a key role to play and they will need to take the lead. But you also need to establish good relationships at mid-management, technical and 'shop-floor' levels. Too many New Zealand businesses make the mistake of trying to establish those relationships from a distance. Be prepared to spend significant amounts of time on the ground, face to face.

7. Stay true to your core values

Even though you're operating in a different country, don't lose sight of the values and culture that drove your success in New Zealand. More importantly, take the time to incorporate your Australian staff into that culture. Don't allow different



cultures or attitudes to develop which can damage your business by creating the potential for inconsistencies in customer service or business processes.

8. Ensure your New Zealand business is strong

Expanding into Australia takes time, effort and money – but don't take your eye off your operation at home. You'll need your New Zealand business to fund your entry costs into Australia and provide a solid base for your expansion strategy. It will also need to be strong enough to function without CEO and senior management attention for extended periods. Another tip – keep your debt management in New Zealand, and ensure money spent in Australia doesn't impact any bank covenants you may have in New Zealand.

"Your base business in New Zealand has to support your expansion efforts – so it has to be sensational." – Graham Catley

9. Don't try to do it all yourself

Don't assume that what works in New Zealand will work in Australia. Make good use of consultants who know the local environment and who have local connections (although you'll need to be prepared to pay for them). There are also many formal and informal networks that exist to help New Zealand businesses in Australia which you should take advantage of (we discuss how NZTE and Kea can provide you with information and contacts in Australia elsewhere in this paper).

The speakers included

Peter Biggs (Biggsy)

Chief Executive, Clemenger BBDO, Melbourne

Biggsy moved from his previous role leading Clemenger BBDO Wellington to take up the reins of Clemenger BBDO/Melbourne. Under his leadership it has become one of Australia's leading agencies and has been named Campaign Brief Australian Agency of the Year for a record five years in a row. Biggsy is part of Kea's network of World Class New Zealanders.

Graham Catley

Managing Director, Stolthaven Terminals and Director, Australasian Solvents & Chemicals Company Pty Ltd

Graham and his wife Anne founded Marstel Terminals in 1987 and grown it to be one of Australasia's leading operators in the storage and distribution of bulk liquids, with ten terminals in New Zealand and Australia.

Steve Fullerton

Chief Financial Officer, BSC Group Ltd

Headquartered in New Zealand, BCS provides logistics hardware, automation controls and software products to airport, aviation and industrial sector clients around the world. They have been operating in Australia since the late 1990s and today employ around 250 staff and have revenues of more than \$100 million in Australia.

Veronica White

GM People and Culture, Unitec Institute of Technology

Prior to her current role Veronica spent several years in Australia. As a Director of PwC and later IBM, she focused on delivering change and transformation projects into client organisations.

Tax implications of doing business in Australia

Taxation is one of the key business costs to think about when you're entering the Australian market. At BDO we work with a wide range of New Zealand businesses to help them understand and manage their tax obligations in Australia. Based on our experience, here are some of the key issues and options you'll need to consider.

By Tim Zonneveld, Partner, BDO Auckland
& Angie Hicks, Partner, BDO Brisbane

Double taxation

Probably the most fundamental issue for New Zealand businesses expanding into Australia is the double tax treaty between our two countries. Under the treaty, New Zealand shareholders don't have access to franking or imputation credits on tax paid in Australia.

What that means in practice is that if you have a permanent presence in Australia, such as a branch or subsidiary company, you'll pay Australian income tax of 30%. However, if you want to repatriate profits to NZ in the form of dividends, you must also pay 33% tax to the New Zealand Inland Revenue – effectively increasing your tax on those profits to 53%.

To put it another way, you have to earn \$135 in Australia to get the same after-tax proceeds as \$100 earned in New Zealand.

This is obviously a significant issue. However, there are a range of options in terms of managing it. The best solution will depend on your particular business; however options include:

- > Using New Zealand retained earnings for dividend payments.
- > Using Australian profits to fund business growth or reduce debt.
- > Ensuring you are charging appropriately (through transfer pricing) for products and services provided to your Australian operation.

Business structure:

Tax issues are also relevant in choosing the most appropriate business structure for your Australian operation. Common structures (and their tax implications) include:

Export only (no physical presence in Australia)

This is a typical way for companies to 'dip their toe' into Australia. If you're simply exporting to Australia and have no physical/permanent presence there, no Australian income tax is payable. However there are a range of other tax obligations you'll need to factor in such as GST, customs, stamp duty.

Australian branch of your NZ company

Establishing an Australian branch is a relatively common option. With this structure the double taxation issue applies to income



earned in Australia. There are also adverse tax implications if you sell your Australian business, including Capital Gains Tax and Stamp Duty considerations.

Australian subsidiary of your NZ company

This is the most commercially accepted approach for New Zealand businesses establishing themselves in Australia. While the double taxation issue applies, it is much more advantageous on exit than a branch structure as no tax applies when you sell shares in Australian subsidiaries.

NZ limited partnership with Australian branch

This structure has the advantage of mitigating the double taxation issue, but it also has significant disadvantages. These kinds of structures are not well regarded in Australia, and it can be hard to find advisers with adequate experience of dealing with them. There are also significant adverse tax implications when you sell.

Australian limited partnership

This kind of structure is not very common, and has significant tax issues on exit.

Branch vs subsidiary?

Branches and subsidiaries are the most popular structures used by New Zealand companies setting up in Australia. In BDO's experience of working with both of these, a subsidiary structure can have benefits:

- > Australians can be quite 'parochial' in that they often prefer dealing with 'local' businesses. Being seen as a branch of a New Zealand company may put you at a disadvantage in terms of the perception of your customers, suppliers and other stakeholders.
- > Subsidiaries provide a higher level of risk isolation than a branch structure.
- > Registration with ASIC and ATO is typically much easier, faster and less costly for subsidiaries. The level of documentation required for a branch structure can be significantly greater and more complex.
- > Local funding & banking is often easier to arrange for a subsidiary.
- > Subsidiaries may be able to take advantage of tax concessions for Research and Development activities.

Get advice early

Of course, while they are important tax issues alone should not drive your choice of business structure. The best solution for you will also depend on a range of factors such as your time frame, your market, and your business strategy and ambitions. It's essential to get good advice from people on the ground who understand the local environment and the local regulatory framework - it will save you a lot of time and potential expense down the track.

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Managing foreign exchange risk

If you're doing business overseas, currency exchange rate fluctuations are simply a fact of life. And in an increasingly volatile world, the impact of currency movements can be more significant than ever. But while you can't take away those risks completely, you can manage them – and the potential impact on your business.

By Darian Chu, ANZ

Of course, you can simply leave it to chance – but that's not a strategy that will help you sleep at night. By following some sound principles, you can eliminate chance and proactively manage your foreign exchange ("FX") risk.

The three key principles of foreign exchange risk management are **Time**, **Risk** and **Product Choice**.

Time

Your time horizon is a key consideration in your FX strategy. For example, the NZD / AUD rate is relatively stable at the moment, but the only thing you can predict with any certainty is that it will change. For example, the current rate is in the upper quartile of the rates we've

seen over the last ten years. The NZD / AUD does move between bands and those changes can be significant over time. An effective FX strategy should take into account your overall time horizon and any seasonality in your business.

Risk

What kind and how much risk do potential FX fluctuations pose for your business? There are three main types of risks to consider:

- > Cash flow risk – how could FX changes affect your cash flow – e.g. your ability to meet your payroll obligations?
- > Net investment risk – how could FX changes affect your balance sheet over time?
- > Profit translation risk – what is the potential impact of FX changes on when, how much and how often you bring profit back?

Product choice

There are a range of products and strategies available, such as forward exchange contracts and currency options, which can help you manage your FX risk. Depending on where you are in your business cycle, you may need a mix of certainty and/or flexibility (so you can take advantage of potentially advantageous changes in the currency exchange rate).

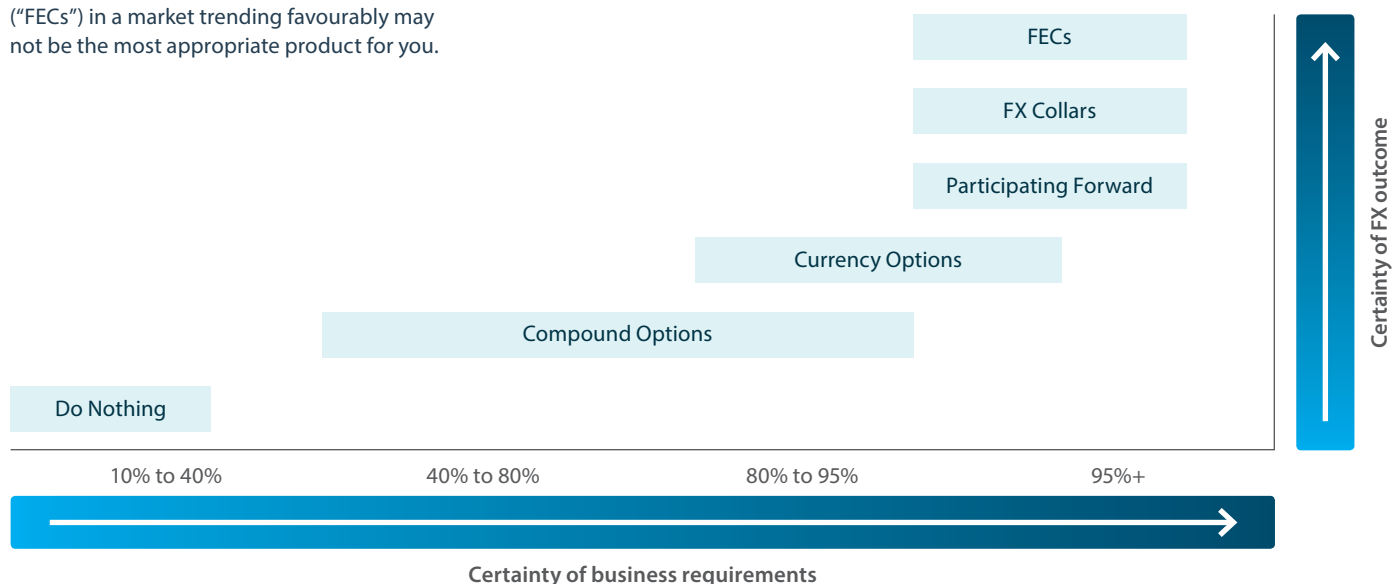
Your FX strategy should be closely aligned to both market conditions and the certainty of your underlying business requirements.

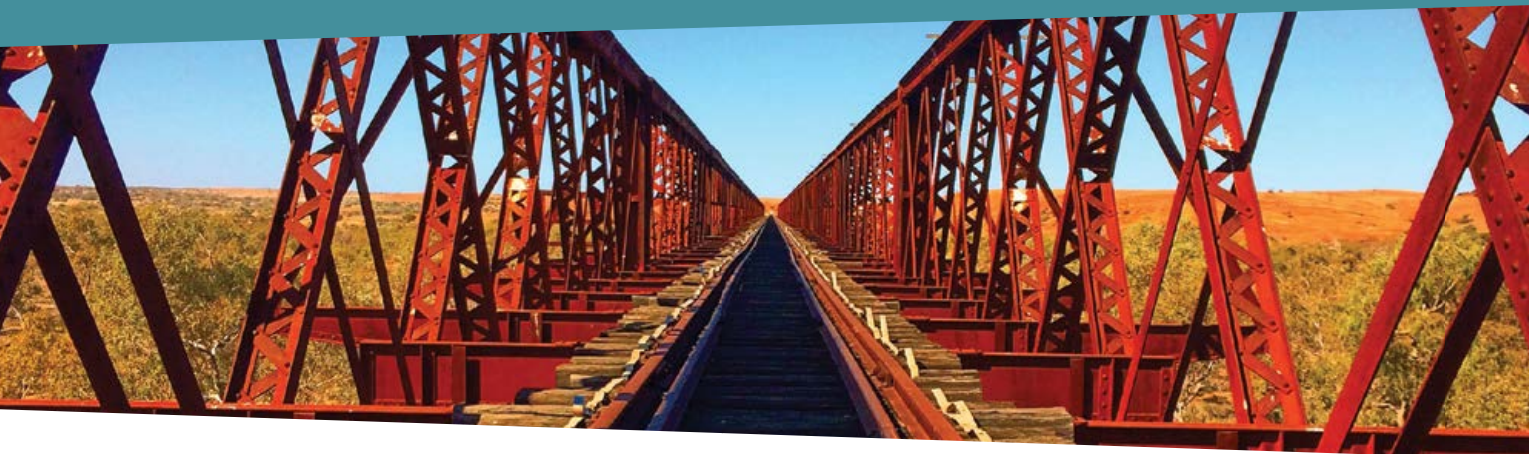
ANZ's FX specialists can help you create an FX strategy that meets your business needs – talk to your relationship or business manager or visit anz.co.nz.

Products you may wish to consider to manage your foreign exchange risk

You may wish to consider a range of solutions depending on markets conditions and the certainty of your underlying business requirements.

Even if your business requirements are highly certain, using Forward Exchange Contracts ("FECs") in a market trending favourably may not be the most appropriate product for you.





Reaching out

Essential help for New Zealand businesses in Australia

Running a business can be tough – and expanding into Australia can be even tougher. But you don't have to do it alone. There are many fantastic networks of people and organisations who want New Zealand businesses to succeed overseas and more importantly, can help you do it. Here are two key resources you should take advantage of.

Kea World Class New Zealand network

Kea is a not-for-profit organisation set up to help New Zealanders and New Zealand businesses connect to the huge worldwide network of more than 1 million Kiwis living overseas.

As part of this Kea has set up a World Class New Zealand Network of more than 330 of the most influential New Zealanders in Australia and around the world. These are people who are willing to lend their knowledge, expertise and contacts to help Kiwi businesses succeed globally.

They can help you with issues such as market validation, mentoring, governance and capital raising. To connect with the World Class New Zealand Network, contact Kea on keanewzealand.com.

To keep you in the loop wherever you are in the world, Kea has also recently released the Kea app for your smartphone. You can download it from Google Play or App Store.

About Beachheads and NZTE Services

New Zealand Trade & Enterprises (NZTE)'s services are designed to help businesses grow and succeed internationally by providing focused assistance in research and development, operations, marketing, capital, strategy, leadership, customers and markets.

Beachheads Advisors are key delivery partners for a number of NZTE's local and international services. Advisors are successful private sector executives committed to sharing their knowledge and experience.

They offer pragmatic advice and an objective perspective on what it takes to succeed internationally.

They offer an invaluable source of information and provide perspective and insights can help shape the direction of your business.

There's a network of Beachheads advisors in NZ and in nine international regions: Australia, China, Europe, India, Japan, the Middle East, North America, South America and Southeast Asia.

Visit www.nzte.govt.nz to see how NZTE can help your business or if you're already involved with NZTE, talk to your NZTE Customer Manager about how you can connect with our Beachheads advisors.

ANZ

Through the global ANZ group, ANZ has an extensive network of connections throughout Australia and 32 other markets in Asia Pacific. ANZ can:

- > put you in touch with local experts on the ground who can provide insights into local market conditions.
- > help you get your banking facilities set up in Australia. Australian banking requirements are different than in NZ and so are the banking products available. Documentation requirements can be extensive – ANZ can help you navigate through them and help make the process easier.
- > help ensure your transactional banking platform is as similar as possible to your ANZ NZ platform to minimize complexity. ANZ can also offer the ANZ Transactive platform to eligible customers (terms and conditions apply) which allows you to view and transact on both your New Zealand and Australian ANZ accounts in real time.

For more information about how ANZ can help you with your Trans-Tasman plan, talk to your ANZ Relationship / Business Manager or visit anz.co.nz

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