



Questions directors should ask before ASIC does

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Australia, the FTA and the global market

What does the free trade agreement (FTA) with the US mean for Australia? What will working in Australia be like in the global FTA future? What will the companies look like? Where will we be in the corporate food chain?

Let's start with the stats. More Americans watch Australian Rules football than do Australians. Over 8 million Americans watch Aussie Rules at least occasionally on television, significantly more than the 6,701,000 Australians that watch it. More Democrats than Republicans watch Aussie Rules, and yes, they are more likely to drink Foster's. Some things are the same the world over – the trick is to know which ones.

Why is Bill Gates one of the wealthiest and arguably the most powerful man in the world when Australians Professor Carl Wood and Professor Alan Trounson, who created In Vitro Fertilisation, are for the most part unknown? And why is Fred Hollows, who restored sight to so many, a hero only in relatively narrow circles?

The answer has nothing to do with the often quoted Australian excuse of the tyranny of distance, or with excessive minimum wages in this country, or with taxation, immigration, or any of the other usually cited reasons.

The answer has more to do with Australia's poor performance in marketing and commercialisation, which is rooted partly in a lack of vision and partly in the lack of confidence to

have a vision, articulate it, and then single-mindedly focus on achieving it.

We can and should have vision in this country. This was once the richest country on earth; while it is acknowledged that it is still a wonderful place in which to live, we've been slipping down the comparative earnings and standard of living tables for decades.

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statistics tell us, real unemployment is over 8 per cent. In both the USA and Australia, 58 per cent of the population aged 14 and over is employed. But more telling are the full-time employment rates, which are 42 per cent in the USA and only 39 per cent in Australia. We are under-funded for our ageing population's retirement – and we are seeing beggars on our streets.

Some argue that this situation has arisen ultimately because of increasing competition from developing economies. But this argument is not as persuasive as it initially appears. It is ultimately made on a zero-sum premise – that if country X increases its production of whatever, then country

Y's production must decrease. If we think about it, however, it becomes blindingly obvious that there are billions of people in this world who want more consumer goods, more travel, and more education – more everything. The free trade agreement gives Australia access to one big part of that market.

In 1998, at The Melbourne Convention *Federation: Into The Future*, Professor Les Holmes challenged Australia to have vision. He asked: "Why can't we be at the forefront of change rather than lagging behind or just keeping up with the real leaders in so many major areas? Haven't we more innovations to offer the world than compulsory seatbelts and booze buses? Where are the globally-recognised Australian brand names or items that other small developed countries are able to produce, such as Sweden's Volvo or Swiss watches?"

The real question to ask is when. When will Australia take advantage of our innovation potential? With the FTA in sight, the time is right now. Not only are there more Americans than Australians watching Aussie Rules, there are more Americans than Australians doing, eating, drinking, buying and wanting almost everything. It is simply a very big market.

Australia has always been dependent on many factors, such as finite natural resources, cost of production of primary produce or manufacturing, supply and demand, the price of minerals and primary produce on world markets and market proximity and competition.

Ever-improving technology and communication is increasing Australia's efficiency in most industries. For instance, in mining and exploration there are new methods of surveying, including satellite aerial photography, more sophisticated computer modelling of ore bodies, larger more cost-effective plants and new methods of extracting gold. In primary production we have genetic engineering, sophisticated land management and farming techniques, and we are arguably world leaders in wine-making technology, to the bewilderment of France and Germany.

This kind of change and continuous improvement has itself become almost

a constant. Australia is a leader in many of these areas.

However, it is in the area of the market – supply, demand, distribution and services – that everything is changing and there are opportunities and threats in abundance. Over the last decade, demand for our minerals and primary produce, like gold, copper, coal and meat, has consistently outstripped supply, and consequently mining companies and primary producers have sensibly focused their attention on production efficiencies, and in some instances, on quality.

What about consumer markets? At the same time that the FTA opens up a large market, the market itself is getting tougher to penetrate; consumers everywhere are becoming more isolated, regionalised, more fragmented, more individualistic, more demanding, more informed, more stressed, more discriminating. In a nutshell, harder to get.

This is where Australia comes in. We are really good at clever solutions in this country. But we must never benchmark against world's best practice – we must start by aiming to go beyond it.

We have a unique advantage in Australia; having never been as ideologically focused as the USA or Europe, our minds are less conditioned to thinking within certain channels. The global market is a very parochial place. There are pitfalls for the unwary, and opportunities for those in the know, but three things are crucial for any successful market development process. These are having information (the real facts), having the ability to make sense of those facts (analysis, synthesis and interpretation) and developing new ways of thinking.

Of particular relevance here is the insight of Andrew Grove, president and CEO of Intel, in his book *Only the Paranoid Survive*. He says: "There are moments in any business when massive change occurs, when all the rules of business shift fast, furiously and forever." He calls such moments "strategic inflection points".

Such a strategic inflection point, he warns, could be set off by almost anything – by mega competition, a

change in regulations, even a seemingly modest change in technology. Since Grove wrote that book, in the space of eight years we have experienced even more change than ever before.

The rise and fall of the dotcoms, the wars in Iraq and Afghanistan, terrorism, security fears and corporate collapses have all taken their toll on every nation's psyche. Many industries and countries have seen their fundamental way of operating and their reason for being in business called into question – and against this backdrop the FTA.

Today, more than ever before, Australia must create and develop its own market. We can no longer rely on overseas customers or intermediaries to create and drive demand for our

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products and services. They have their own priorities and problems. And I would argue they are no better placed than we are to deal with uncertain and tough times.

The world, or at least the developed world, has entered a new era. This new era is one which will be defined by globalisation, technology and communication, elimination of traditional boundaries and a strategic focus on the global marketplace.

Grove pointed out that managed wrongly, a strategic inflection point can mean the end of the game. Managed right, it can turn into a powerful force. Clearly, those of us who are still here all want to manage it right.

If we agree that Australia must develop its own market, then the question is where to begin. In reality there are many places to begin. Yes, Australia does have more to offer than football, Foster's, booze buses and compulsory seatbelts.

The following are just three examples, there are many more. First, we can increase the value of the gold industry to Australia. The industry needs to take charge of its distribution channels and increase its share of the total value of the gold jewellery market. The opportunity

exists today to do just that by marketing and selling gold jewellery over the internet – but only if Australia takes the lead and takes ownership of the market.

Second, Australia is blessed with good information. We have the world's best single source database, the Roy Morgan Single Source. We have shown that we know more about some areas of the USA than those spending US dollars in their own country.

Today, when it costs less to telephone interview throughout the United States from Melbourne, Australia (even with the high dollar) than it does from a central point within the US, the opportunity exists to make Australia the global hub of marketing intelligence.

We are way out front in the thinking, design and implementation of this concept of global market intelligence today. The real challenge is to find a way to keep the intellectual property, the value, and the jobs in Australia.

Third, we need to look at education. We all value education, yet it is still seen as a cost. The opportunity exists to make education Australia's business – and a very powerful, and lucrative business it will be.

As we move forward it is difficult to avoid wondering where our future lies, and what kind of world our children will inherit. In these increasingly complex times, the collective cognitive power of a nation's people will have a great deal to do with determining its success. This means there will be a vibrant market there for whoever manages to corner it.

One initiative comes to mind here for Australia: distance learning. There is no question that Australia has the intellectual capacity to develop an excellent system of education. It is just the economics of such a venture that beat us. However, if we consider our market for such an endeavour to be the world, then the economics of the business become extremely attractive. Global communications could make this possible.

These ideas all have one thing in common – they are all about new ways of thinking. Perhaps the tyranny of distance has advantaged us in allowing us to think outside the square – let's now think outside the island. ■