

## QUALITY REQUIREMENTS FOR EXPORT COMPETITIVENESS

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The areas I wish to cover include:

- (1) The critical success factors for export competitiveness.
- (2) The need for industry to adopt a quality focus.
- (3) Food and Beverage Sector's adoption of ISO 9000.

### The critical success factors for export growth

When talking about export competitiveness one of the key issues Tradenz constantly comes up against is that once having located a profitable market, is finding New Zealand companies that have the capability and capacity to supply. Of course one of the key elements of a company's capability to provide, is the attention given to quality.

A number of studies have been undertaken that indicate what companies need to do to become internationally competitive. One such study by Val Lindsay recognised seven critical success factors contributing to international competitiveness. This was an academic study involving some 140 companies throughout New Zealand. The seven critical success factors included:

R&D  
Quality  
Investment  
Management style

Market selection  
Strategic marketing  
Personal contact

As you can see quality is only one of a number of equally important factors. Leaving quality alone for the moment I will briefly focus on some of these other factors.

### R & D/Technology

Through a systematic approach to research and development one must be constantly looking to improve the products, the service, the manufacturing process - all focused on satisfying customer needs. There must be continuous innovation to develop unique technology, designs or processes. It is important that the owner (originator) remains involved.

### Strategic Marketing

Strategic marketing involves the following activities:

developing business and marketing plans  
export marketing  
use of environmental information  
use of market research  
ensuring the business is market-led  
taking a long-term strategic approach.

You would be surprised how often we visit companies to find they do not have business or marketing plans.

### Tru-Test and Bendon

Another study that analysed common elements for export success included the company Tru-Test and Bendon. Here senior management of each company independently assessed what they considered to be the critical success factors.

These include:

- do what you do best
- market research
- strategic planning
- quality
- customer focus
- service
- control distribution,
- R&D,
- corporate culture,
- motivated staff,
- information systems,
- investment.

Again, as in the Val Lindsay study, many similar factors came through as being of paramount importance: R & D, quality, planning, customer focus, empowering staff.

### **The need for the Forest Industry to adopt a quality focus**

The second subject of my paper is, "Why should the forest industry adopt a quality focus? Why change?"

You might well ask. Especially right now when it seems as if the whole world is lined up outside our door ready to snap up any wood products we put on offer, be it logs, lumber or re-manufactured

products.

The simple answer is that by enhancing our industry's capability to meet acceptable quality standards we become better placed to compete more effectively and profitably for increased market share and new markets. We must put the days of the "she'll be right" attitude behind us. In the past we Kiwis have only needed to be more efficient than our often very inefficient mate down the road.

Recent events highlight the need to adopt a quality focus:

### Timber Grading

A consumer survey in 1991 from 12 merchant yards, graded framing and appearance lumber. The results - only one merchant met the NZS361 requirement (95 per cent within grade), the rest ranged from zero acceptability for framing to eight per cent acceptability for appearance grade.

### Timber Drying

In a survey of 47 kiln-dried loads sampled for moisture content and stress level only 10 out of 47 loads were acceptable to NZS632. Fifty percent of loads had standard deviations greater than 2.5 per cent.

## Timber Treatment

In August and September 1992 the Queensland Forest Service checked 248 samples from New Zealand. The results were that 32 per cent failed to meet preservation standards:

H3	197 samples	16 failed
H5	51 samples	19 failed

We might think we are good but we have a wee way to go! When it comes to sawmilling, for example, New Zealand's non-log cash costs at an ex-mill point are 40% above those of Canada, US South and Chile.

The catch-cry in the forest industry at present is "be internationally competitive" but who really knows what that is.

Without international benchmarks we have nothing to compare ourselves against. However, in their absence and in the interim adopting quality improvement systems will propel us forward and confer huge benefits.

### Benefits

Quality as an aspect of company capability and its positive impact on business enterprises is well documented, with the benefits including:

#### Empowering people

Staff become involved in decision making, which in the process builds teamwork. This in turn improves communications and industrial relations.

#### Reduces costs

Quality reduces waste, rework and product recalls.

#### Controls variability

Through total quality systems one gains consistency in production.

#### Positioning product

Quality creates a marketing advantage.

#### Productivity gains

Quality systems can quickly pinpoint and rectify problems.

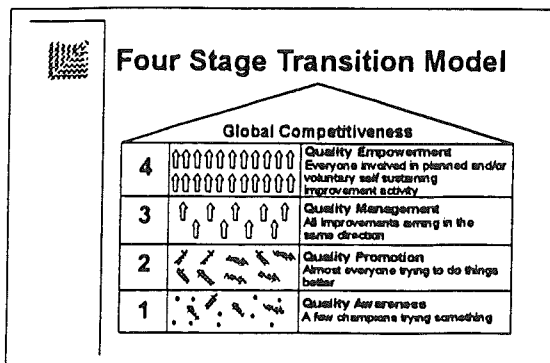
#### Benchmark performance

Can compare results against own company standard and against competitor companies.

Many people view TQM as the management of business itself. If you get this right everything else more or less falls into place.

#### The Journey

After that impressive list one might well ask "Why are we still sitting on our hands"? While some corporates, and fewer independent wood processors have embarked on the TQM journey, our industry is lagging way behind many other New Zealand industry sectors. It is not surprising as the journey is long and takes years to achieve the more advanced stages



The forest industry is hardly arrived at Stage 1, with few proven champions willing to promote the cause.

Stage 2 is about mastering the quality improvement process.

Stages 3 and 4 is where organisations are able to sustain their ability to improve.

All going well the whole process from the establishment of quality assurance systems, to the adoption of a TQM can take 4 to 5 years.

### Food and Beverage Sector Adoption of ISO 9000

Given the fact that over half of New Zealand's \$17 billion export business is from food and beverage products, coupled with the increasing demand to meet international standards the Food and Beverage sector set itself a goal.

Our aim at Tradenz is that 80% of all food exporters with annual forex earnings greater than \$2 million will be implementing a Quality Improvement Programme by 1997.

At present 209 companies in food and beverage have annual exports in excess of \$2 million.

The momentum to gain ISO 9000 certification is certainly building. The number of food and beverage companies certified now stands at 32 with another 79 scheduled for audits.

Six months ago 19 were certificated and 53 were awaiting audit.

The rapid move towards ISO 9000 by the Food and Beverage Sector was initiated by Tradenz with the promotion of its Quality Improvement Programme.

Tradenz recognised that many people had heard of TQM, but had not bothered to take that first step because they didn't know where to start. The HOW TO had to be addressed.

Here is where every picture show has its advertisement! Several publications have been produced by Tradenz:

Total Quality: The key to continued Export Success

TQM Wallchart and ISO 9002 Wallchart

ISO 9000 Quality Systems Manual.

The Champions

Having provided the tools, Tradenz then set about uncovering industry champions who were prepared to promote the cause. Champions were found in the following companies;

Printpac,  
Interlock  
Lion Breweries  
NZ Breweries  
Sealords  
Diary Board  
Fisher and Paykel

Leading executives, like Stuart Young of Interlock Industries, have given freely of their time to talk to the uninitiated. Having produced the tools and unearthed industry champions Tradenz then set about developing a strategy to promote the TQM initiative. The strategy called the Quality Advancement Programme included:

- National launch
- Breakfast meetings
- Quality tools
- Tradenz help desk
- TQM consultants
- Workshops
- Newsletter

People often say that sounds fine, but what does it cost me to implement a TQM programme for my company?

#### The Costs

For companies with less than 100 staff the costs can range from \$15,000 to \$30,000 for introducing TQM and training staff members to the stage where they can continue to process.

The audit expenses of between \$6,000 and \$8,000 relate only to the certification body expenses.

To defray some of these expenses two schemes offering financial assistance are available via the Business Development Boards.

#### Financial Assistance

The first, the Export Assistance Grant Scheme extends to 50% of the cost of hiring an external consultant, up to \$8,000 for the implementation of TQM and/or ISO 9000.

The second, the Enterprise Growth Development Scheme, allows for 50% of the cost of undertaking a Quality Assurance Audit/Certification, up to \$3,500. A point that many companies often overlook is that implementing TQM should not be viewed as a cost, but rather an investment.

#### The Case for a Quality System

Real rewards have been achieved by New Zealand Companies who have implemented a quality programme. Whilst the adoption of ISO may be a marketing necessity for some, the greatest benefit comes from the financial gains that flow from Total Quality improvements. These are examples - not exceptions.

#### Cultured Foods Company,

Implementation of a total quality system resulted in 50% reduction in dumped production and \$500,000 annual savings.

#### Beverage Company

For this company there was a 60 % improvement in process efficiency resulting in a \$460,000 gain.

#### Process Cheese Manufacturer

Quality improvement resulted in "A Grade" product being increased from 70% to 90% of production with a \$2,000,000 gain.

These sort of savings are not surprising when one considers that the cost of poor quality in the western world has been estimated between 20 and 40% of gross sales.

## **Customer Driven**

To summarise, if a company is to be internationally competitive it must be customer driven.

In order to raise its overall economic standing New Zealand is very much dependent on its success as an exporting nation. Recent infrastructural changes within the New Zealand economy have now produced companies that are rapidly shaving costs and increasing productivity. However to really maximise the impact on the international scene we need to change from being production lead sellers to customer driven marketeers. That is the challenge for all exporting industries, including forestry. If you fail to let your customer define quality, you risk manufacturing products to a consistent standard but which no one wants!

## **Compete or Die**

These days, there is no such thing as industry stagnation, one must compete or die!

## **Quality Enhances Competitiveness**

In our industry it is not so much a matter of developing markets, as they are now starting to seek us out, but rather of developing production capability. By adopting quality improvement programmes companies have proven they can manage change and increase outputs.

The Quality Advancement Programme instigated by Tradenz has proven a most significant factor in enhancing the capability and competitiveness within the Food and Beverage Sector.

As the world moves towards ISO 9000 as

the internationally accepted quality system standard, exporters who adopt the standard will be better placed to compete more effectively and profitably.

The challenge I lay before this audience and the forest industry is embrace accepted international quality systems as fast as you can.

In an increasingly competitive international marketplace companies without any quality assurance systems and standards are putting at risk their very survival.