

ENTREPRENEURSHIP IN THE NEW WORLD

1. INTRODUCTION:

I feel both humbled and privileged to have been approached for this occasion.

It is 40 years almost to the day that I left the confines of Otago University and the memorable student flat I occupied for several years in Royal Terrace. While the faces have changed I can still recognise the campus buildings and even in the few hours I have spent here the aroma of learning still permeates the air.

Today is also special in having my wife, Robbie, attend. She has braved the weather to come and see what I loved about Otago and to hear again my ideas and adventures, which for many she has been my partner and confidant.

I feel particularly honoured because Otago has produced many far more deserving people who have made their mark both in this country and on the world, especially in the fields of medicine, science, arts and commerce.

2. SCOPE:

I was generously given a broad scope as to topic and decided to focus on my personal journey as an entrepreneur and the impact extended education had on its success.

During my time at the coalface of Commerce I have formed some personal views of concepts that I believe collectively distinguish the entrepreneur from his peers. Many of these are not easily taught but most can be learned although not often found in rule books.

It is this understanding, when combined with the tools and skills taught in Universities, that can make the true entrepreneur a formidable force in developing our economy.

My path to entrepreneurship started young and was initiated by my parents. Notwithstanding they were of a somewhat socialist orientation, they had a very strong work ethic and even stronger social conscience.

From a very early age it was lawn mowing and a paper round with time set aside to mow lawns for elderly people in our street (this was Mother's social conscience!). As the years passed I graduated in my early teens to buying and selling bicycles often replacing damaged and missing parts using recycled castoffs from the local tip. First major lesson in life. Pocket money was earned, not handed out.

By University time I had my own car and independence. I started at Victoria studying Engineering first year. I was somewhat average and it was not a good feeling. It was here I realised I wanted to be better and maybe engineering was not for me.

But it wasn't all bad – at the same time I was running a house and roof painting business on

the side and as an initiative I bought one of the first airless spray guns in the country. These were great inventions as they pump out paint at an unbelievable rate if you put enough pressure into the tank, if the paint's too thick dilute it with thinner. Wellington is a fertile ground for maintenance painting. I only had to look down from Mt Victoria to pick my marks and there was enough business forever. It was a bit like painting the Auckland Harbour Bridge. If the day was right I could paint between two and three house roofs and my team and I were paid and gone before the paint was dry. It was a good living limited only by Wellington's weather.

This is my Entrepreneur's Rule No. 1: Make your own opportunities – do not wait for others to lead the way.

By the second year I was a typical student and not really sure about anything until I had a chance discussion with the then Managing Director of Mobil Oil. He talked to me at some length and gave me my first understanding or feeling of outcomes in life.

He distilled life choices into three camps and left me to choose.

1. First choice was to be a **Professional** – doctor, lawyer, accountant. I would have high public and peer esteem, would be available 24/7, and have an above average income, no real power but occasional weeks of freedom. But this was a guaranteed outcome.
2. I could go a second route (as he had gone) and look to become a **Corporate Executive**. I wouldn't know whether I'd make it until 40+ (high risk in anybody's language). It gave high public and peer esteem, would be on call 24/7, you would have high income and lots and lots of power and perks, but almost no freedom at all, and most of all when you left the corporate arena, life quite possibly would be an empty void if you weren't big on golf.
3. The third choice he gave me was to become an **Entrepreneur**. A new word in my lexicon. Again I wouldn't know if I would make it until around 40, generally it comes with low public esteem, you would have very little power, but if you made it you would have a very high income, very flexible working hours and heaps of freedom.

Reflecting back 40 years later I believe these choices and the advice still stand.

However at 20 years of age who's sure about anything in life – dreams were free and the confines of New Zealand grew tighter every day. I had decided the professional route was out. The world needed no more average engineers and the corporate route looked too disciplined and risky.

I needed some real adventure – I cashed in Uni for two years for a job in Vietnam, where the war was in full swing. En route I stopped in New Guinea, then still a Protectorate of Australia, and never quite made it to Vietnam. I had recently read Barry Crump's book on the outback in "Aus" and thought I'd try my hand at Croc shooting in amongst my stints of truck driving on the dirt highway from Lae to Mt Hagen. Two years later and a slightly

enlarged wallet – Croc skin, of course – I headed back to New Zealand and the hallowed halls and haunts of Otago University to complete a Commerce degree. Working for a living without using much brain power was tough.

Notwithstanding in those days we received free University tuition plus an accommodation and book allowance, I still had to work. Back to painting. I tendered and won a contract to paint a hundred workman huts in Twizel, which you may recall is a picturesque village a few hours from Dunedin. Armed with my painters equipment and a team of Uni students I departed to do battle. But on arrival was told no spray guns allowed – local works manager decision. Efficiency declined 30% and we finished the job at breakeven ... just.

Rule No. 2: Always expect other people to change the rules on you.

In my final year I took a course that changed my life. It was called Marketing – for me it was “Eureka”. The world suddenly made sense, the power of education at last become a real meaningful ingredient of life.

For the first time I set an objective, which was a real stretch for me sitting there with negative net worth. I decided to do two years Post Grad study in the US.

Three months and 47 employment interviews throughout New Zealand later, I had a company committed to sponsoring me for two years in the States and my eternal gratitude to Otago University where the marketing professor at the time helped arrange an Assistantship at Michigan State University which gave me access to in-State fees. I was on my way.

I returned to New Zealand in the early 70’s and spent three years repaying my debt to the travel company who sponsored me. Towards the end they made some unfortunate financial decisions resulting in a change in ownership. I subsequently left and started Gullivers Travel – a wholesale travel business – with two employees, capital of \$2,000 and zero sales.

The following 30 years were the Gullivers Story. A real rollercoaster and a mine of opportunity.

I understood early that travel was one of the only businesses where customers paid up front, often months before travelling. The profit and opportunity therefore came from managing cashflow as much as trading margins. Our first big break though was finding a way to sell discounted airfares when all tariffs were Government controlled and it was a statutory offence to discount. Selling was tough, foreign exchange regulations at the time limited overseas travel expenditure to \$15 per day or \$1,000 per month. Some in this room may still recall those straightened times up until the mid 80’s.

To break this Government approved constraint on price we arranged for a rebate scheme, whereby we set up an internationally based philanthropic trust which would assist our travel customers to see the world with substantial rebates. We called it St Christopher.

Our opportunity lasted an incredible 3 years before the regulations changed during which we grew Budget Travel into the largest retail travel agency group in New Zealand.

Rule No. 3: Always believe there is a way. Never let the past dictate the future.

An outcome of this together with a change of Government brought about change in airfare tariff regulations leading to today's cut price offerings and low cost carriers throughout the world. In 1973 the cheapest return fare to Europe was in the order of \$1,500, representing six months salary, versus today's price still \$1,500 or approximately two weeks salary.

I know of no other product, other than Moore's Law in Technology that has seen similar price compression. You will have noticed this type of efficiency progress is driven in the main by entrepreneurial activity around the world doing things differently. Look no further than the advent of the low cost carrier model.

My life continued as a rollercoaster. At the time of the kiwifruit boom in the early 80's I tried my version of being opportunistic by contracting 80% of the tanned pole output of the main producer in New Zealand. All went well for a month or two until I noticed the stock piles of poles getting smaller and found farming contractors throughout the Bay of Plenty setting up orchards at a very low cost on the basis that there were piles of poles to be had for free – generally in the darkness of night.

Rule No 4: If you have a market advantage, expect others to play by different rules.

In 1987 we had our first brush with financial failures (what good entrepreneur hasn't) when a finance company with whom we had lodged a substantial portion of our customer cashflow went bust overnight. Hair raising stuff at the time but we had enough spread in other banks to cover us off but it took a number of years to come right.

I was involved in setting up one of the first retirement villages in the early 80's. These were very innovative as they were one of the few high density building options available on residential land designations. Again challenging times, especially when our financing bank, DFC, went into liquidation and BNZ had its own solvency issues. Much like we read about today while this was difficult for the bank their issues made it even more difficult for customers. These are situations where you will note those entrepreneurs that have the strength, tenacity and the moral code to honour their obligations tend to both survive and prosper.

I was also involved with commercial property and Joint and Several Guarantee commitments came close to turning Robbie and my life upside down in 1989. They remind me of the recent myopic views that property prices can only go one way, and the lesson of property bubbles I am sure will be revisited again in the future.

Good entrepreneurs believe in the Dead Ant Theory. "If you ever play dead ant – you are never safe, you simply get run over". Always stay on your feet and keep fighting.

Peter Hillary once said to me that climbing mountains was easy – just keep putting one foot in front of the other. At times this must seem the most impossible task in the world but if you don't you will perish on the mountain, and entrepreneurship is the same.

Rule No. 5: Never give up. Persistence is everything.

The travel business increasingly became a numbers business with high volumes and very low margin. This iterative business was ideally suited to the developments in processing technology and at an early stage I financed a group of young techo's to develop leading edge technology solutions for aspects of both our retail and wholesale activity. We structured this as an independent operation and subsequently sold solutions into Australia, Asia and Europe. In many cases this enabled us to bypass regional constraints in product access and pricing to source best of world options, which in turn was reflected in the ability to retain staff and customers.

Rule No. 6: Always be at the leading edge of technology.

The rest of my story is well known to you all. We IPO'd the Gullivers Travel Group 30 years after we started having grown to 1,000 employees, \$1 Billion in sales and ended up with enough personal wealth to do almost anything Robbie and I could wish.

I believe this is entrepreneurship as I believe there are elements of it that are different to how most people think and run their lives and just how much they are prepared to commit to achieve. So what makes an entrepreneur different to a professional or corporate leader and where does education fit?

I believe the differentiator is about the willingness to take risks and pursue both short and long term personal objectives relentlessly. If being an Innovative Genius like Einstein is 99% perspiration with 1% inspiration, then being a Great Entrepreneur is 99.5% determination and 0.5% inspiration.

I don't believe that entrepreneurship can easily be taught. But do believe that early teaching and ongoing education can enable an entrepreneur to be really successful. And anyone can learn the rules.

When I made the decision to do an MBA the concept was still new and taught in only a few of the better Universities in the USA. What really sold me on the validity of the idea was that if you had what it took ... it replaced 10 years practical experience by two years in the classroom. That's not only Economics 101 but what a way to put yourself 8 years ahead of all your contemporaries and give you 8 years more freedom with the goodies at the other end. I love that outcome.

I am still not sure entrepreneurship is something that can be learned. What is it in someone that makes them driven and willing to take enormous risks? I believe it comes partially from within and partially from cultural exposure, and here is one of the problems I see with New Zealand.

Since the 1950's New Zealand has not been big on developing a culture of being tough, strong and competitive. We only need to look to Australia where their Rugby Union – the smallest of three leagues – demonstrates an entrepreneurial hardness with a high degree of processed learning. It combines this with an absolute unremitting commitment to winning. Their culture and belief in their ability to achieve is extraordinarily deeply ingrained and we see this at every Olympics and in the corporate world.

Commitment and passion are essential ingredients to the entrepreneur. Employees tend to believe and follow entrepreneurs often in blind faith. This often gets businesses over major hurdles.

One of my US Professors used to describe entrepreneurship activity in terms of “The General Patton Theory”. Meaning that when you are in action all plans have to be adaptable and you have to be able to think on your feet and make new decisions. Patton used to say;

“See that hill in the distance, I don't care how you get there but be there by noon”.

The unwritten part if you don't – fall on your sword.

That's action and commitment. There is only success and failure.

Most of us, however, live in shades of grey and accept compromise. Accepting compromise is an action the true entrepreneur would prefer not to contemplate.

For many entrepreneurs their motto is:

“Carpe diem – quam minimum crudela postero”. Which roughly translates into “Seize the day and place little trust in tomorrow”.

This has caused a dilemma for the United States and London financial markets as we speak. How to retain the motivation and entrepreneurship that has evolved over 600 years while more fairly reducing the risks that innovation initiates when driven by compelling entrepreneurs?

To the contrary in New Zealand unfortunately we have few such challenges. We have revelled at limiting competition. In the 1950's and 60's this country was the next best thing to a command (centrally directed) economy and in hindsight not well directed. Since then we have meandered down the ranks of the OECD rankings with now little chance of escaping far from the bottom step.

As an anecdote: When I did my last Harvard course back in 1998, which was one called OPM – this stands for Owners and Presidents Management Programme, I quickly learned what Michigan and Otago never taught. OPM really stands for “use Other People's Money”. Harvard graduates took this literally and formed a major backbone in the evolution of Hedge Funds and the rewards the 2 and 20 formula generated over the last 10 years.

Harvard's professor of international business at the time, Professor Scott, knew a lot about

the New Zealand economy. He felt New Zealand's deregulation process in the 80's formed the template for the new entrepreneurs in Eastern European countries on how to strip wealth from a country when centrally controlled assets are sold off. His final course exam for MBA students was "If you were advisor to Jenny Shipley, what policy actions would you recommend to fix New Zealand at the next election". I left before the results were known but wonder what the answers from that august body might have offered.

He also noted that only one country, Argentina, has fallen from being a first world economy to being a third world economy since 1950, but if there was to be a second then New Zealand had a very high probability of being the candidate. I believe we have turned this corner and here is hoping he is forever wrong.

I cannot help but feel that maybe as a nation we have squandered the genetic entrepreneurial instinct of our early settlers who travelled so far around the world to get here. In the 1870's we seemed to be able to build more infrastructure by hand than we have achieved over the last 60 years.

Over recent years the New Zealand Government seems to have spent more money ensuring what you can't do while pandering to the here and now consumption demands rather than investing in our future. One look at GDP share spend on infrastructure, including roads, ports, technology, transportation, power, etc., compared with Australia puts us nearer to Fiji economics than the OECD rank we are supposed to aspire to.

My fear for New Zealand is that we seem to take pride in developing more slowly than most of our fellow species and unfortunately as Darwin discovered, "It is not the fastest or the strongest that will survive, but those more able to adapt and change with a changing world". It seems to me that those countries with the greatest flexibility and speed of action with Governments who are prepared to govern and make decisions have come through the latest financial crisis in better shape than many others. Above all else America knows and understands it needs to keep the entrepreneur alive and to continue taking risk. It salutes success and has a culture saying, please learn by your mistakes. It is far tougher on those that transgress its laws and yet still has far more people trying to immigrate into the country than almost all other countries in the world together. In this respect it is still the most desired destination of choice.

The listing of the Gullivers Travel Group was interesting in a number of ways. First; we listed as a virtual company which was essentially a cash box with contracts to contemporaneously purchase five business enterprises involved in the travel industry. We worked for some time with the Securities Commission for approval to float in this manner with very limited historical financial information on the businesses as a number had been restructured for the purposes of the float. Initially everyone said that it couldn't be done and we would be limited to a trade sale or private equity deal, but I persisted as what they were saying didn't make logical sense. It was this idea that we have in New Zealand that history is the sole predictor for the future. My experience is that Entrepreneurs are the people that feel they can change the future, while Corporates are those that manage history.

Only entrepreneurs take a longterm vision, financial markets today are driven by young wunderkinds doing company research which is all about feeding all cashflow back to investors and financial participants. They often break the cardinal rule of going too far out on the debt limb with little value given to those who act conservatively and save their funds for the opportunities that arise in any rainy day.

In the international environment these turbulent times are going to give rise to another round of entrepreneurs who will find new ways to create bigger and more successful activities. These entrepreneurs today will be different as they will all be far more educated with an endless depth of skills to hone, and to drive an ambition that is already resident in their DNA.

I am happy to live by my rules. They have stood the test of time. So if anyone here believes they are an Entrepreneur do the following apply to you;

1. Do you make your own opportunities?
2. Expect others to change the rules on you.
3. Do you always believe there is a way?
4. Do you have a market advantage?
5. Never - never give up.
6. Always be at the leading edge of technology.

We have many of these people in New Zealand and I commend Otago University for endeavouring to free and channel that spirit and I only hope that our future politicians will give them room to engage and create an open environment to play in or these very people will migrate with their skills into this borderless world and that will be a loss to everyone.