

# TDB Digest, April 2017

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## Dairy companies: their strategies and performance

What are the keys to success when taking on an industry behemoth like Fonterra? Is a co-operative or non-co-operative structure likely to work better? And what business strategy is better: a focus on core commodities or a move up the value chain into specialised or branded products? In our review of the main New Zealand companies that compete with Fonterra, (including Open Country Dairy, Synlait, Tatua, and Westland Co-op) we found that both corporate structures and both business strategies can work well – and they can work poorly. The core ingredients for success are focusing on the customer, keeping costs down, managing risks and keeping the farmer-suppliers happy.

See the TDB Dairy Companies report here: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Dairy-Companies-Review-2017.pdf>

A summary article published in the National Business Review is available at: <https://www.tdb.co.nz/wp-content/uploads/2016/05/Phil-Barry-NBR-Fonerras-Competitors-Strategies-and-Performance-2017.pdf>

## Social investment

Under its social investment approach, the government is looking to take a longer-term perspective on its social expenditures. But it also expects organisations that receive taxpayer funding to demonstrate they are delivering results. Stand for Children is a not-for-profit entity that seeks to transform the lives of at-risk children aged 5 to 12. Stand asked TDB to review its effectiveness using the social investment framework. TDB found Stand was typically reaching the kind of children that needed its help and that the service was, on average, associated with a positive impact on the children Stand served. We concluded that if Stand has a material positive impact on approximately one in six of the children referred to it, not only will the child and its family be better off but the government will “break-even” on its investment. If Stand can exceed this standard, it will generate a positive financial return for the government through less need for welfare support, health care and corrections services over the children’s lifetime.

See TDB’s Stand for Children report here: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Stand-for-Children-Social-Investment-Review-2017.pdf>

## Innovation and the insurance industry

TDB recently advised one of Australasia’s leading health insurers, nib, on product development opportunities in New Zealand. While our report is confidential, the potential impact of digitalisation on an industry that many regard as sleepy and untrustworthy is huge. For example, instead of using underwriters, a start-up insurer in New York called Lemonade uses algorithms; instead of brokers and salespeople it uses chatbots; and instead of humans it uses artificial intelligence and machine-learning to handle claims. Last year a customer claimed for a stolen coat. According to the Economist, “within three seconds “A.I. Jim”, the firm’s claims bot, reviewed the claim, cross-checked it with the policy, ran 18 anti-fraud algorithms, approved it, sent payment instructions to the bank and informed the customer.”

For more on Lemonade see:

<https://www.theguardian.com/sustainable-business/2017/jan/28/insurance-company-lemonade-claims>

## Believe it or not...some interesting GDP statistics

Which country is Russia closest to in terms of the size of its economy (as measured by GDP): Australia, France or India? Not surprisingly, perhaps, the answer is “it depends”. Using GDP measured at current exchange rates (“nominal GDP”) and official statistics from the IMF, World Bank and United Nations, the answer is Australia. However, using purchasing power parity (PPP) – a measure that seeks to adjust countries’ nominal GDPs for differences in the cost of living – Russia’s economy is similar in size to France. Either way, Russia’s economy is only around 2 to 3% of world GDP. This compares with the USA’s 24% and China’s 15% at current exchange rates.

Some other interesting stats:

- on a nominal GDP per capita basis, Ireland has bounced back strongly from the GFC and now ranks 5th in the world; and
- with the stagnation of Japan’s economy over the last two decades, Japan’s per capita nominal GDP (at \$US 32,500) is now below New Zealand’s (at \$US 37,000), although on a PPP basis Japan is still ahead.

Refer:

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal))

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(PPP\)](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP))

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)\\_per\\_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)_per_capita)

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(PPP\)\\_per\\_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita)