

Innovation in export

How Australian businesses are driving growth and reaching new markets through innovation



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Exports, innovation and productivity

Decades of research reveal a strong link between exporting, innovation and productivity.

Across the economy, the OECD estimates that as much as 50 per cent of growth comes from innovation.*

And a 2013 study by the Melbourne Institute of Applied Economic and Social Research found some evidence that “learning by exporting” was a driver of innovation among Australian businesses.†

As you move into the global marketplace, you have the opportunity to learn from international best practice. That helps you become more innovative and more productive, giving you an enduring competitive edge, both at home and abroad.

The result is a virtuous circle: engaging with overseas customers and competitors exposes your business to new ideas, driving you to innovate and become more productive — and so driving further export success.

How innovative is your business? An innovation checklist.

- Do you have an innovation **strategy** that sets out your objectives and priorities?
- Do you have a **process** for capturing new ideas and creating an innovation pipeline?
- Does your business **leadership** champion innovation?
- Do you actively **collaborate** with outside organisations and experts to capture new ideas and technologies?
- Do you have **funding** in place to make innovative ideas a reality?
- Do you seek out **talented people** with innovation experience and skills in areas like design, user experience and process re-engineering?
- Do you make innovation part of staff **key performance indicators** and reward innovative activity?
- Do you have **metrics** to measure and improve your innovation performance?

Six types of innovation

When we think of innovation, we often tend to imagine ground-breaking new inventions and revolutionary technologies. Yet most innovations are an evolution, rather than a revolution.

A change to your processes, delivery model or even your marketing can be just as effective as a new product in creating a lasting competitive advantage, increasing margins and helping you unlock profitable new markets.

Here are six different ways Australian businesses are driving growth through innovation.

* OECD Innovation Strategy 2015: *An agenda for policy action*.

† Palangkaraya: *The Link between Innovation and Export: Evidence from Australia's Small and Medium Enterprises*, 2012.

1. Product and service innovation

Adapting your products and services to the special needs of an overseas market is a proven route to export success. But exporting also provides an opportunity to capitalise on innovative product features with unique appeal offshore — features often seen as unimportant in the domestic market.

Take the success of **Astec Paints** in Japan. A manufacturer of paints and acrylic renders since 1978, Astec's reputation has been built on high-performance products that can cope with the extremes of the Australian climate. They include elastomeric membranes that stretch and shrink like rubber, without cracking or flaking.

But it is the ability of these elastomeric products to withstand the stresses of earthquake tremors that has underpinned the company's recent export growth in Japan.

In 2013, this earthquake resistant quality was instrumental in having Astec's products certified under Japan's building code, allowing the company to significantly expand its Japanese exports, underpinned by a working capital guarantee issued by Efic.

"Thanks to Efic's support, we were able to triple our turnover," says Astec Paints director Peter Galanis.

While he says its traditional financiers have been exceptional, "they've got parameters they have to work within. And when you start talking about the export market, for some reason it falls outside of those."

"The assistance we received from Efic allowed us to better accommodate the demand that was being created from the Japanese market. It also allowed us to address and better allocate human resources and financial resources to other export markets, which we would otherwise not have been able to do," Galanis says.

"As a result, we've now found that there are four different export markets that we've been able to target, and with which we're in negotiations at the moment.

Accessing niche markets

Exporting can also help you find a wider customer base for an innovative, niche product that may have a limited market onshore. South Australian company **FCT Flames** is a world leader in creating spectacular flame effects for ceremonial and sporting events, including the Sydney, Athens and London Olympics.

"Australia has a limited market for the kinds of specialised projects that we do," says CEO David Retallack. "So around 90 to 95 per cent of our business comes from exporting overseas."

Retallack says that while price is important in some markets, the ability to continuously adapt and improve — and deliver a reliable product every time — is what gives FCT Flames the edge.

"Every project is different and some artistic directors have very specific requirements. So we spend a lot of time in research and development, to create a unique product that meets our clients' needs."

In 2015, FCT won the contract to provide the cauldron for the South East Asian Games in Singapore, stretching the company's resources.

"The bond facility from Efic helped give us the ability to take on this contract — one that we may otherwise have had to turn down."

Putting it into practice.

- Identify the unique features of your products and services
- Research the distinctive needs of potential export markets
- Consider further product and service adaptations that would strengthen your appeal in the target market

2. Delivery innovation

Finding an innovative way to distribute your product or service can mean the difference between success and failure as an exporter. Collaborating with an established overseas partner is one way to gain a head start in a new market, with immediate benefits for both businesses.

Your partner creates a new revenue stream and a new way to bring value to its existing customers, while you gain a readymade delivery channel run by people with direct experience of your export destination.

Digital technologies have also made it easier than ever before to reach out to overseas customers directly, either in collaboration with a partner or on your own.

Sydney-based digital marketing company **Stackla** has used both approaches to rapidly build a portfolio of more than 500 blue-chip clients around the world. Specialising in collating and analysing user-generated data across social media, Stackla provides its clients with customer insights they can use to create tailored marketing strategies.

By partnering with established providers like Hootsuite and Simpleview, and building relationships with global brands including Twitter and Facebook, Stackla has been able to win hundreds of new clients across Europe, North America and Asia Pacific in just four years.

At the same time, Stackla's strong digital presence enables the company to deliver software and interact with its customers directly via its website and developer portal.

And financial support from Efic has helped Stackla to increase its working capital and expand its digital marketing platform, providing the foundation for further investment and growth.

Putting it into practice.

- Consider partnering with a business that understands your target market and offers a complementary product or service
- Investigate innovative techniques for using digital technologies to reach customers directly

3. Business model innovation

New business models have the power to overturn established players and reshape entire industries. Businesses like Amazon, Google and Apple have revolutionised industries like advertising, music, books, publishing and retail with powerful digital platforms that can be used to deliver a whole range of products while sidestepping traditional distribution channels.

Australian innovators like **99designs** and **Freelancer.com** have used a similar approach to disrupt their business categories: design services and short term job contracts and as a result have managed to build a global presence and in a very short time.

Yet some of the most effective business model innovations are refinements of existing strengths, rather than revolutionary new methods of doing business.

Melbourne-based family company **Marand Precision Engineering** is a striking example of the way an evolution in an existing business model can win new customers and create new export opportunities.

Founded in the mid-1950s, Marand has an established reputation as an engineering services provider to clients across the automotive, steel, aviation and aerospace sectors. But in the early 2000s, a downturn in car manufacturing began to impact the company's revenues.

Marand responded by adapting its business model to create a new offering for clients in the fast-growing mining sector: a fully automated workshop to maintain the rolling stock that miners rely on to transport their commodities to market.

With \$10 million in financial support from Efic, Marand was able to win multi-national customers including BHP and Rio Tinto, and employ around 100 new staff in the process.

"We've always exported a small amount, but nothing of this scale. About 60-70 per cent of our revenue comes from exports today, from less than 10 per cent in the earlier years," says David Ellul, executive chair, Marand.

While the rail projects with BHP and Rio Tinto were domestically-based, the iron ore produced by the mining companies is exported, which opened the door for Marand to receive Efic's support.

"Without that, we would not be in a position to take on those two large programs," Ellul says.

This has in turn allowed the company to invest in further export projects in the areas of defence and other industries. Marand is also focusing on a number of other investments in projects throughout Asia, and is working with Efic on these.

Putting it into practice.

- Analyse your existing business model and identify the areas where you add the most value for your customers
- Consider how you can re-engineer your current model to deliver value more simply and directly
- Look for adjacent sectors and customer segments you can reach by adapting your existing business model to deliver new products and services

4. Process innovation

Process innovation can yield immediate results by reducing your costs, and improving customer service and speed to market. Yet it can also be relatively simple and inexpensive to execute, especially as new technologies become more accessible and affordable.

Look for opportunities to automate and streamline your internal systems to increase efficiency and drive down costs.

For example, connecting an online ordering platform directly to your accounting, stock control and order management systems can help you to reduce data errors, cut administrative overheads and speed up delivery. Similarly, systems that automatically update customers on the status of an order can help build satisfaction while reducing inbound calls.

Consider upgrading or modifying equipment used to produce your product, so that it is easier to operate, cheaper to maintain or less expensive to run. Or look at redefining job descriptions or up-skilling staff to reduce delays caused by handovers and resourcing costs.

It can also make sense to outsource non-core activities to external providers, liberating your staff to focus on value-added activities, rather than administration.

Putting it into practice.

- Analyse your existing processes to identify operational and production chokepoints, then find ways to eliminate them
- Modify or replace equipment to speed up production and reduce costs
- Integrate front and back-office systems to streamline administration
- Consider outsourcing low-value activities

5. Marketing innovation

An essential element of export success is the ability to adapt your marketing approach to appeal to customers in different locations. The first step is to analyse the distinctive tastes and buying behaviours of key customer segments in each destination, then adapt your brand and marketing accordingly.

Digital technologies and social media have made it easier than ever to market your products and services internationally at low cost. For example, a recent McKinsey study found that tapping in to existing Facebook networks can help businesses gain immediate access to communities across national borders.* Digital platforms also make it easier to gather insights into the behaviours of different market segments.

Yet it's also important to get the basics like branding and packaging right.

Australian winemaker **Cassegrain** has been exporting to Japan and other south-east Asian markets since 1987. But when it made a concerted effort to enter the Chinese market in 2013, it found that getting its marketing right was essential to its success.

"As a relatively young market, China tends to place greater emphasis on image and profile than on the quality of the wine itself," says John Cassegrain, Chief Winemaker and Managing Director of Cassegrain.

"The market is driven largely by traditional perceptions about what wine should be — so, for example, we've seen a preference for wines that use corks, rather than screw caps. Similarly, our Japanese customers are very demanding when it comes to presentation, including the quality of the bottles we use."

By adapting everything from bottle shapes and sizes to labelling and packaging, Cassegrain was able to create a product with unique appeal to Asian buyers. And by ensuring that pricing reflects the quality of the wine — and not just the packaging — Cassegrain is helping protect the brand's future as the market matures.

"Up until a few years ago, export made up just 25 per cent of our business. It's currently at 40 per cent and we hope to reach 70 per cent within the next few years. The financial support from Efic has helped us grow our exports, achieving economies of scale and bridging the long lag time between production and sales."

Putting it into practice.

- Take advantage of digital and social platforms to maximise cross-border exposure at minimal cost
- Use data to understand your target market, and create tailored messages based on their needs and behaviours
- Test and learn — experiment with different messages, channels, imagery and copy: and monitor the results to understand what works

* McKinsey Global Institute: *Globalization for the little guy*, 2016.

6. Financing innovation

Securing finance for new export initiatives is a key challenge for many Australian businesses. But innovative finance methods are becoming increasingly popular and creating new opportunities for Australian export businesses.

For example, a growing number of startups are using crowd-funding: raising capital directly from the public, usually via websites and social media channels.

Flow Hive is an Australian company that invented a new way to harvest honey. In 2015, Flow Hive set a new crowd-funding record for businesses outside the US, attracting \$4 million in less than a fortnight, and a total of more than \$17 million.

Yet according to Stuart Anderson, co founder of the Brisbane-based business, they were initially targeting a minimum capital raising of just \$70,000.

“That was our break-even point... we figured that should allow us to begin production, to supply a number of people and to keep advertising,” he says.

The response also saw their order book spike to more than 25,000 orders from 148 countries, leaving them scrambling to launch production and distribution capacity to meet such high demand.

A key advantage of this approach is they didn’t need to share control with a third party stakeholder, such as a private equity or venture capital firm. “There are many examples of people’s work being wrecked by the interventions of those who funded it,” he says.

Beyond the access it provides to capital, there are other benefits.

“It was about attracting funding and marketing the product at same time. Crowd-funding attracts all the people around the world that are interested in innovation. How else would you do that?”

“It turns out we’ve really reached a market that is rarely reached by normal beekeeping conduits. You can get a much more sophisticated message across, including our values, who we are, and the story behind our invention,” says Anderson.

Putting it into practice.

- Consider alternative funding sources that can help you build your global presence without sacrificing equity or control
- When your bank is unable to help, talk to Efic to discover how it could help you access funds or other export finance solutions

Overcoming the barriers

While innovation may be the key to success, that doesn't mean that it's always easy. A recent study by the Australian Bureau of Statistics (ABS) found that businesses experienced a number of barriers when it came to innovation.*

Unsurprisingly, lack of access to additional funds was cited as the number one barrier, followed by a perceived lack of people with the required skills to help them innovate.

However, the ABS data clearly shows that businesses have much to gain from embracing innovation.

Nine out of ten businesses that had introduced new or significantly improved goods, services, processes or methods said that there had been a tangible benefit.

More than 40 per cent reporting increased revenue as a result of the innovation, along with other benefits including reduction in operating costs, better customer service and an improved competitive edge.

The increased focus on innovation now means there is more help available for Australian businesses looking to innovate, with business incubation groups, government centres and other providers offering support and financing assistance.

Discover how Efic could help your export business innovate.

Efic provides Australian export businesses with financial assistance to help them grow.

To find out more about how Efic could help your business with the funds it needs to innovate, go to efic.gov.au or phone **1800 093 724**.

* Australian Bureau of Statistics: *Innovation in Australian Business*, Release 8158.0, August 2014.



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