

South Canterbury Chamber of Commerce

The Power of Consumers

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**CHRISTCHURCH
11 OCTOBER 1995**

THE POWER OF CONSUMERS

It is a great pleasure to get down to this part of the province. I would be the first to concede that in our country we look too readily toward the north as the source of all things. Up north is the seat of our politics and, a little further north still, the country's commercial and economic centre of gravity. But the pull of the north is not the only engine driving our economy. Indeed, if I could share with you one of my convictions, it is that next century we will see the development of two urban clusters in New Zealand: Auckland and Christchurch. That means huge opportunities for business people such as yourselves. It also means the decline of Wellington as a power centre, which touches on a subject I want to talk about tonight - but more of that later. My own company, Aoraki, is very definitely an enterprise of the south. We have proved that it is possible to stand in our own part of the world and take on all comers in the global market.

And it is the realities of the global market that I want to talk about tonight. Not the achievements of GATT, nor the vigour of the Asia Pacific region, nor the ebbs and flows of the world economy - vital as all these factors are. I want to talk about a reality that is even more fundamental, and possibly harder to grasp. It is a reality that is catching up with all of us, whether we are trading in Timaru or Taiwan, Christchurch or Chicago. I would suggest, too, that this reality is behind the groundswell of change we are witnessing in politics. Just as much, this reality must determine the way our services such as health, education, and welfare are delivered. All of us must recognise and ride this wave of change, or be swamped by it.

I call this reality consumer power. It is the strongest force at work in the world today. It has been fed by many factors, and the implications are enormous. To give you an idea of what I am talking about, let me tell you a story. I read it in *The Economist* a little while ago and it crystallised much of my thinking on this subject.

A distinguished academic at Yale University has gauged the price of a commodity as basic as light itself, from neolithic times until now, and come up with some startling findings. This researcher, William Nordhaus, tracked the various sources of light that human beings have used from sticks and oil-burning lamps through to gas lights, kerosene lamps and the myriad of electric light sources available today. He measured them against the standard unit of light, the lumen. A wax candle emits about 13 lumens; a modern hundred-watt bulb emits about 1200 lumens. Then, by historical investigation, he gauged the price of light down the ages. I presume some of his calculations were a bit rough and ready, but the trend is clear and it is startling. He found that the cost of producing 1000 lumen-hours of light has fallen from 40 cents in 1800 - in today's US dollars - to about one-tenth of a cent today.

In other words, consumers are paying less and less to receive ever more and more. The same phenomenon can be illustrated with most goods and services. Say a new ball-point pen is introduced that costs double the price of others on the market. If it lasts four times as long, the price, in fact, has halved. And if it works in a wider range of conditions - under water, upside down, or wherever and however somebody might need to use a pen - consumers are getting something they never had before. And having got it, they are not going to go back to the old pens, any more than they would go back to lighting their living rooms with a tallow lamp.

So it is with everything we buy and use today. Consumers are accustomed to ever-improving products, ever-better service. Those of us who can provide these rapidly improving goods and services will succeed. Those who cannot will fail. If it was ever good enough to rest and say yesterday's product sold well enough, so it will do for next year, that time has passed. I would suggest that successful entrepreneurs never had that attitude. They are forever updating their product and devising new and better ways to get it to the consumer. That trend is gathering pace at an ever-increasing rate.

It is not as strange or as terrifying as it might sound. We already see it around us. Imagine you went to a department store and bought a toaster, say, 20 years ago. If the toaster broke, you took it back to the store. Chances are you were given a repair slip and the store sent the toaster back to the manufacturer. Two weeks later, you might have called the store to ask what was happening. You would probably have been told the manufacturer had still not repaired it. If you were lucky, after another week or so the store might have called to tell you the toaster was repaired and you could come and pick it up.

That might have seemed like pretty decent service, and you were probably not too disgruntled. Never mind that you were without your toaster for several weeks and that it failed through no fault of your own. That was the old, she'll-be-right New Zealand. It was regulated, ordered, protected - and sinking. If consumers got a raw deal the attitude was, well, tough. They had no choice. It was no coincidence that New Zealanders' standards of living were falling fast, from an average income around 92 percent of the US level in 1938 to a mere half by the mid-1980s.

We can be glad the turnaround has begun. Today, if you took your faulty toaster back to the department store, it's likely you would be given a new one there and then, no questions asked. The store would take upon itself the time and the cost of dealing with the distributor or the manufacturer.

That is a tiny example. But it's the world we operate in today. In the new open and competitive economy, consumers rightly expect service. They won't be messed about. The rules have been changed, fundamentally. Far from being the faceless buyer at the end of the line, the consumer is the driver. All service providers, retailers and manufacturers must recognise that. If they don't, consumers will go elsewhere.

If consumer power is the driving force of the world today, then its chief expressions are choice and accountability. The implications of this are huge - political and social, as well as commercial.

Today's consumers and citizens not merely demand the right to buy the products they want, but recognise that they increasingly have the power to call their leaders and service providers to account. We hear a lot of hype about the Information Superhighway, the revolution in interactive information flows that we are told is just around the corner. In my company, we are already taking that corner, at speed, and if you think about it, so are all of us. It's not merely the glamour industries we are talking about. Most of you here tonight will remember when 'pirate' radio stations took to the water and to the airwaves to break the stranglehold of state radio broadcasting. All of you will remember when there was just one, then two, television channels, both run by the state. They were subject to the whim of prime ministers

who, not much more than a decade ago, could commandeer the airwaves for a statement to the nation. That these days the prime minister has to try his luck against *Shortland Street* and *The Gladiators* may not seem like a quantum leap forward, but it's another indication of the groundswell I am talking about.

Consumers demand choice, and that applies to the political marketplace as much as to broadcasting or the right to choose between shoes from Brazil, Italy, Australia, and New Zealand when we go down to the local shoe shop. The trend has changed the face of commerce, and it is changing the face of politics. Put yourself back in that world of a couple of decades ago, when viewers and listeners had no choice. Compare it to the airwaves today. In one corner, Pam Corkery may be calling the minister of social welfare to account for his department's latest spending decision. In another, the US Bosnian envoy, Richard Holbrooke, is seeing if his peace deal passes muster with that ultimate gauge of global opinion, *Larry King Live*. In a third, the local talkback host is loudly opposing the CHE's decision to shut down a ward or treat mentally ill patients in the community.

The quality of all this debate is variable, to say the least. But if we dismiss it as just so much babble we miss the message. It is all an expression of consumer power, with its twin demands of choice and accountability.

I have talked about how the phenomenon alters the way we conduct our businesses. But of course it's also a pressing imperative on all leaders, politicians, and public policy makers. I would suggest that it is demanding a new style of leadership - no longer only from the politicians, but from all of us.

The public enthusiasm for a new form of political representation was an expression of this trend. The vote for MMP was a flexing of the consumer muscle I have been talking about. I happen to believe that MMP will not deliver the results that voters imagined when they chose it. But the lesson is clear. The political class had fallen into disrespect because it appeared to have forgotten that the consumer is the driver.

The push for MMP was an expression of a legitimate demand to exercise choice and hold politicians to account. Some imagined MMP as a pure system in which governments would somehow coalesce, bringing to the cabinet table a harmonious rainbow of opinions from which would be distilled the true public good.

Sadly, I believe the reality will be different. Entrenched and minority forces may well be in a position to exercise undue influence over the political system. Indeed, we are being invited to consider a political future in which a political party that opposes the very things that have led to New Zealand's new-found success could be in a position of ultimate power. It is now obvious to most that the freedom of choice in the market, the opening of our doors to the world, the healthy breezes of competition and the less intrusive role of the government have all delivered enormous gains to New Zealand. Look at how your own businesses have changed in the last decade and I think you will agree. Yet an MMP government - because of the peculiar configuration of New Zealand politics - may believe it can turn the clock back on those developments.

That could come about despite the fact that a majority in parliament now, and in all likelihood a majority in parliament in the future, shares a broad consensus in favour of the economic platform that has helped New Zealand advance. There is broad

agreement across the two main parties on such fundamentals as price stability, a broad and low taxation base, fair and neutral investment rules, and the freedom to trade. Why then is a third party making the running in opposing these fundamentals? How is it that the Alliance - a minority party now and, in all likelihood, a minority after the next election - believes it may be in a position to reverse the policies that have brought New Zealand so many gains?

The irony is that the Alliance's recipe would not deliver gains even to its own constituency. History has shown again and again that walls of protection and economic restrictions merely hurt those they are intended to benefit. They bring higher prices, fewer choices and, most tragically in this case, fewer jobs. The interesting question to ask is: why has a significant number of New Zealanders put their faith in this agenda?

One answer, I suggest, is inadequate political leadership. To be sure, we have seen many enlightened decisions by political leaders in the last decade. Yet I would suggest that policy making has not been matched by a recognition of the changed realities I am talking about. The world of choice and accountability is a hard world in which to provide leadership. It demands nimble decisions, acute antennae. These, I think, have too often been lacking. In that vacuum, parties such as the Alliance have gained a constituency among those who see change all around them, but feel they are being kept out of it. They feel marginalised. They feel that old, discredited solutions will put them back in the picture.

Facing the apparent popular appeal of such a belief, some of our politicians, who I believe do know better, have retreated into a kind of policy paralysis. However, that need not worry us unduly. It should still be possible to move forward. If Wellington is not leading, the community will have to take Wellington with it. Indeed, the day when politicians called the shots has long passed. Ordinary citizens now have many more of the levers in their own hands. The role of government has shrunk, and New Zealanders like it that way.

All of us must therefore inform and be informed. If the political system is momentarily failing, it is incumbent on all thinking citizens to promote a more ambitious vision. Despite the allure of the politics of nostalgia for some, I believe most New Zealanders recognise there is much more to be done. We have fitted ourselves out for a better performance; now it is time to move into the fast lane and build on it.

There is certainly no reason to throw up our hands in despair. We have changed the tools of politics, but it is community understanding and attitudes that really matter in the longer run. It is possible that our politicians will catch up with the demands of the consumer power I am talking about. Maybe the new political system will, in time, evolve to bring about the decisions we need.

If it does not, we should not be afraid to review it again. In business if we make a false step, we take stock, think again and go forward in a new direction. So it should be with MMP. I would not be surprised if, in the coming years, we see a public reaction to MMP just as forceful as the mood that brought it about. We need not be wedded to any of the 'solutions' we fix upon as we navigate the fast-changing territory around us.

My own world, the computer industry, is often said to be at the leading edge of the consumer revolution. We are certainly putting increasingly powerful computers in the hands of our buyers. To return to my light-bulb analogy, we are giving consumers the power to do more and more. The personal computer in your child's bedroom is as powerful as the huge mainframe computer which the New Zealand government purchased in the 1960s and on which it ran the country's accounts.

Yet we cannot afford to be smug. Take a look at the 'smartest' features of computers today, such as the ability to run a machine with point and click icons, the facility of powerful databases, and the power of virtual memory. Features such as these make computing accessible and easy for just about anybody.

Yet it may surprise you to know that these technologies were all understood at least thirty-five years ago. The computer industry has delivered the hardware to make them possible. But the concepts have scarcely changed.

I would suggest that the really fundamental change in the computer industry is just beginning. I call it the shift to commodity hardware. If a computer company is to survive, it has to be able to place a machine that will do precisely what customers want - even if they don't realise precisely that they want it yet - on their desk for a minimal price. It's not the hardware that matters; it's the function. It's what the hardware can do.

The leading computer companies have been running hard to supply consumers with the machinery they want. Take one of the glamour companies, Compaq. In 1994, its sales rose from 6 million to 6.6 million - a 10 percent increase. That indicates a massive and still hungry market. Supplying it has entailed a huge investment on the part of companies such as Compaq. Think of the manufacturing facilities needed to satisfy such a market and grow at that rate. That helps explain why computers are still relatively expensive machines. Certainly, they are doing a lot more than the primitive personal computers of a decade ago, but their price still means they can hardly be seen as basic commodity items for many buyers.

I predict that by the turn of the century - and remember, that is only a few years away - you will be able to put a personal computer on your desk for the price of today's microwave oven - a few hundred dollars. The product then begins to look much more like a basic commodity.

When personal computers are in that league, imagine the uses that people will want to put them to. Forget for a minute about the machinery, the hardware. We are in the business of information technology, providing the means of disseminating information and, more importantly, using it ever more effectively.

It is a truism to say that computer technology is all about communicating with one another. But we should not forget it. It is an awesomely powerful tool which will be increasingly relevant to the goals of public accountability and transparency. If you or your son or daughter can log on to the Internet and instantly download the comparative rating structures of every local body in the country, that is highly useful information with which to haul the local candidates over the coals for their spending proposals. The leaders and would-be leaders are no longer in a privileged position.

They no longer enjoy privileged information that you and I might ordinarily have taken months to compile.

The same can be said for waiting lists at the local CHE, the cost of my product as against those of all my competitors, or the validity of any party's policies. Everything is becoming instantly contestable. This is an extra onus on all of us, and we ignore it at our peril. Much of the technology currently in the hands of consumers is, I would suggest, primitive and clumsy compared with the products that will be available in five or ten years' time. But it is developing at a breathtaking pace.

These trends are changing New Zealand just as they are changing the world. This transformation is something in which people such as you and I share a privileged stake. I will leave you with one perspective on that. It is a phenomenon I call the Asian triangle. Picture it, enclosing Christchurch, Tokyo and the Thai-Burmese border. Within that triangle, a population accounting for 25 percent of the world's GDP is exploding into new vigour, with consumers fast developing the characteristics I have been talking about. That is an enormous challenge and opportunity for all of us. Go out there and seize it.

Consumers in every arena are increasingly vigorous, demanding and discriminating. They have taken over the driving seats of change, overwhelming the old elites who once could guard their positions jealously. That means a new style of politics, a new style of trade and business, and a new style of public service. We must learn it fast.