

# Pottinger

PERSPECTIVES

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# AUSTRALIA DREAMING





In 1989, I moved to London. The 1987 crash was fresh in people's memories, and financial markets and the business sector were subdued. Jobs for life were still the norm, but the outlook was uncertain.

At the time, Australia's GDP was US\$0.3 trillion, about 32% the size of the UK (using historic exchange rates). It was a romantic holiday destination, famous for Uluru, the Barrier Reef and kangaroos, but it was far from a significant world power, least of all in the minds of its population and leaders. Australia had punched above its weight in the 1983 America's Cup, ending 132 years of American dominance and the longest winning streak in any competition, and had had numerous successes in other sports. But economically, it was still viewed as "just another of the colonies", even if such a term was already anachronous at the time.

Wind the clock forward a little more than a decade, and personal circumstances (an amazing wife and business partner) had brought me to Australia. The country's GDP had grown by a little more than 20% in US dollar terms. Falling interest rates, significant economic reforms, economic growth and the 2000 Olympics had created a vibrant economy. So unsurprisingly no-one noticed that the country had declined to just 24% the size of the UK.

Business was booming, house prices soared, and new cars began to appear on every street. Yet despite this success, the refrain on everyone's lips was that Australia was a small country, with small markets and small opportunities. This explained (so they said) why the level of competition was low, and prices for so many things were already relatively high. The population was too small, and the people were too thinly spread, and the distances from the rest of the world were

simply too great. Duopolies were the only practical answer to these challenges, and would guarantee the best outcome that could realistically be achieved in the circumstances.

This puzzled me deeply. It was clear back then that the country was one of the fastest growing developed nations in the world. Although small compared to the USA, Japan and China, Australia was still larger than 180 or so other countries. It had tremendous natural resources, beautiful cities, a strong economy and friendly people. There seemed to be extraordinary opportunities for offshore investors to buy sound businesses, bring international perspective and a more efficient operating model to bear, and participate in exceptional growth. All this could be done in a market where margins were significantly higher in many industries than observed in developed world superpowers.

A few visionary organisations did seize this opportunity. Many sneered at Dutch

Bank ING for its apparent foolishness in spending tens of millions on advertising (helped by Billy Connolly) to launch ING Direct down under. And yet, within a decade, it had built what was Australia's fifth largest bank. Auto & General entered the market in 2000 and has steadily and quietly built a meaningful presence in general insurance. Virgin leapt at the opportunity to launch a new airline out of the ashes of Ansett later that year, and it is now arguably Australia's best domestic airline. Aldi has been building in Australia since January 2001, and now has double digit market share, and Costco too is expanding. None of these have been flash in the pan successes, and all continue to generate decent returns for their owners, particularly compared to their home markets. And no-one seems to have noticed that all these more entrepreneurial market entrants, who have targeted some of the largest industry sectors, are from overseas.



The Australia of 2003 was upbeat and energetic. Business leaders were optimistic, and political leaders told a positive story of economic growth and opportunities for all. Tellingly, nearly every face, from bus drivers to office workers to surf lifesavers, wore a smile. Australia truly was the happy country, with a sunny personality that permeated everyday life.

Events conspired to focus most North American and European minds on opportunities at home, partly due to the dramatic technology booms and busts during the early 2000s, and then as a result of the global financial crisis.

So Australians were allowed to live in peace in a parallel universe, where a dramatic boom in the construction of new coal and iron ore mines, as well as offshore gas extraction and associated gas export facilities, drove the most dramatic period of economic expansion ever to be seen down under. This resulted in a period of unprecedented outperformance compared to the rest of the world. Despite the frail global environment, once again the economy boomed and house prices ballooned. But although Australians recognised in 2009 that the country had begun to step quietly up the world economic league tables, almost no-one seemed to notice that the country was now 40% the size of the United Kingdom.

This gave Australian companies a once in a life time opportunity. The economy was stronger, relative to the largest nations, than ever before. The exchange rate was more

advantageous, against all major currencies, than ever before. The companies themselves were more highly valued, relative to their global competitors, than ever before. This made for an extraordinary opportunity to export capital and build new businesses for the future that had roots well beyond Australia and New Zealand. This is precisely what Pottinger has done in its own business, establishing footholds in Singapore and the USA, and investing in building relationships in a dozen other countries around the world.

But very few leading Australian companies have taken this opportunity, and the window of maximum relative advantage has now closed. The exchange rate has fallen some 30%, and economic growth in North America and Northern Europe has returned.

Incremental changes are overlooked at your peril, as I have written before. So let's step forward to the present day. Any close observer of Australia, wherever they are in the world, knows that the country has experienced 23 years of uninterrupted economic growth. This is something that almost no other major western nation has managed in the last half century. But although most people now appreciate that the country ranks 12th globally by GDP, hardly anyone has noticed that Australia reached 58% the size of the UK (again in US dollar terms) in 2013. Of course these figures are flattered by the exchange rate at the time, but the relative outperformance is remarkable.

The recent events in Greece put all of

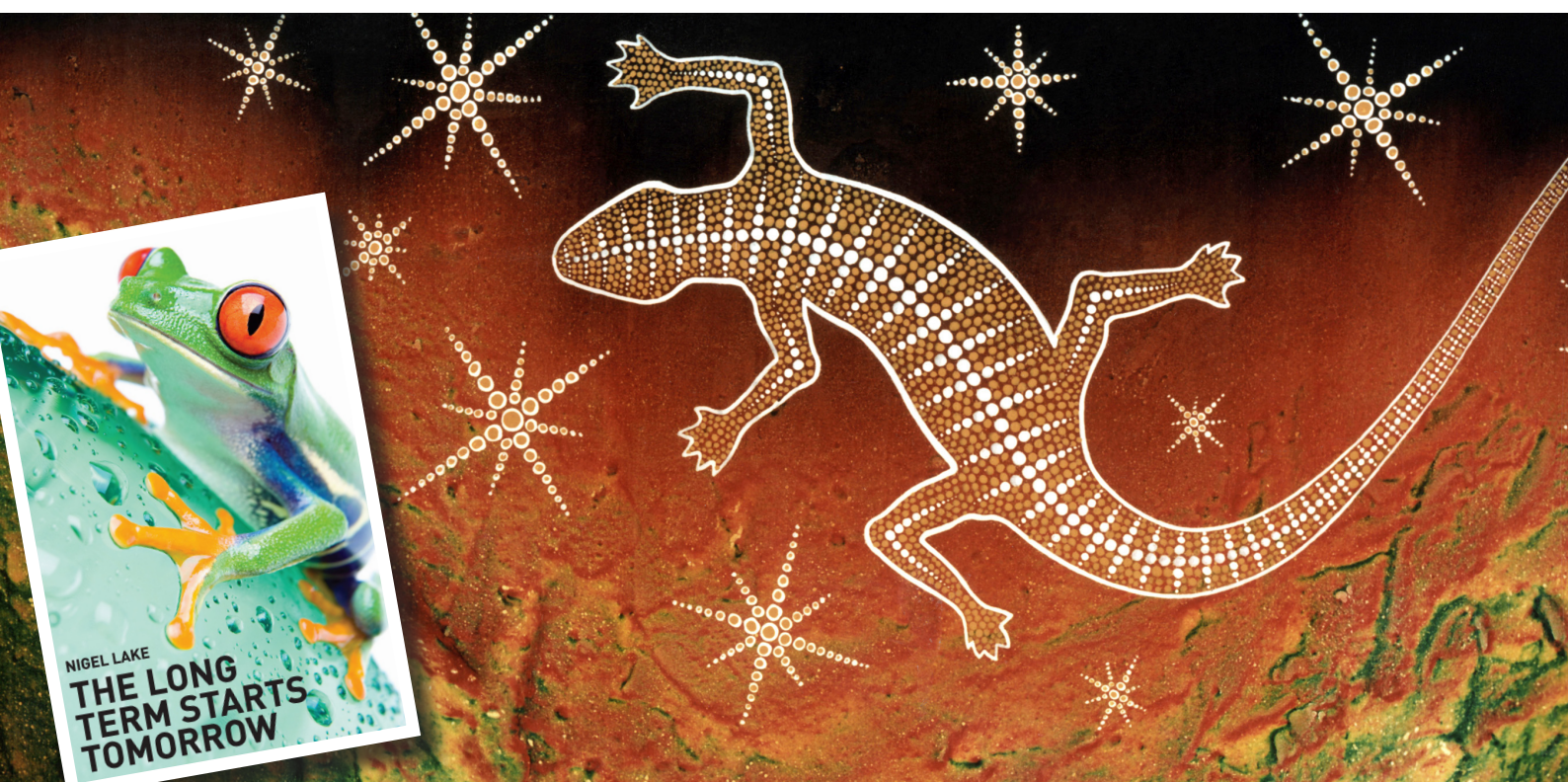
this into sharp relief. When I arrived in Australia, it was roughly 2.5x the size of the Greek economy. Today, a little more than a decade later, it is over six times the size of the Greek economy, measured in US dollars. In local currency terms, since 2007 Australia has grown by 20%, whereas Greece has contracted by over 25%. The pain for Greece has been huge, with unemployment and national debt soaring, and no obvious relief in sight.

Yet the outlook in Australia is perceived by many as incredibly uncertain. Political dialogue has focussed on a "debt and deficit disaster", and the matching negativity in the business sector is palpable. So anyone walking the streets of the nation's capital cities could be forgiven for thinking that they have stepped through some curious Antipodean time warp and landed in the heart of the US recession in 2009.

The impact of this pervasive negativity is far-reaching. Australian business confidence remains patchy, and investment has declined markedly. Worse, many business leaders in North America and Europe also believe that Australia faces challenging economic conditions.

Yet long run OECD forecasts (in 2010 PPP terms) show that Australia will continue to outgrow leading nations such as the UK, Germany, Canada and Spain. Indeed Australia is forecast to overtake Spain by 2040, and will almost catch Canada by 2060. By then it will be two thirds the size of the German economy, up from just 25% in 2002.





This clearly has serious implications for Australia. Without the right perspective, it is hard to see where the real opportunities lie. Without confidence, it is hard to make the investment needed to realise those opportunities. And without leadership, it is impossible to build the support you need to set a bold, long term agenda. It is as if the nation is afflicted by some curious form of financial dysmorphia, so that when its leaders

This is an extraordinary contrast to 2002 and begs the question: How can Australia snap out of this mindset? How can the country escape its “Through the Looking Glass” mentality, where the opportunities feel like risks and the real risks – of inaction and complacency – are being ignored?

look in the fiscal mirror, the reflection that they perceive bears little relation to reality.

Here lies a dramatically important lesson for every country, and indeed every large organisation. Incremental changes are very easy to ignore, particularly if you focus too much attention on your own internal measures of performance and success. All too often, this breeds a particularly self-destructive type of politics. Even worse, this self-satisfied introspection can lead to what our Chair Cassandra Kelly calls the Supremacy Gene – a sense of overwhelming superiority and success which leads slowly but inexorably to complacency and decline. This leads in turn to an entirely altered perception of reality, where the joy that should rightly be experienced by one of the world’s most successful companies or

nations is transformed into a pervasive sense of gloom and impending doom.

So it is no surprise that when I visit Australia’s capital cities, most of the faces now wear frowns. Office workers taking the morning elevator ride stare morosely at their smart phones, fearing what the day will bring. Ubiquitous optimism and conviviality, once a hallmark of Australia, has gone.

This is an extraordinary contrast to 2002

and begs the question: How can Australia snap out of this mindset? How can the country escape its “Through the Looking Glass” mentality, where the opportunities feel like risks and the real risks – of inaction and complacency – are being ignored?

This is the number one challenge that faces Australian leaders in business and government today. Anything else is nothing more than an Orwellian distraction from reality. Australia must get its life force back.

Around the world, we see a number of characteristics that clearly differentiate the great leaders from all of the rest. These characteristics explain how they avoid the temptations that have led thousands of other business and political leaders astray. These hold the key to restoring self-belief.

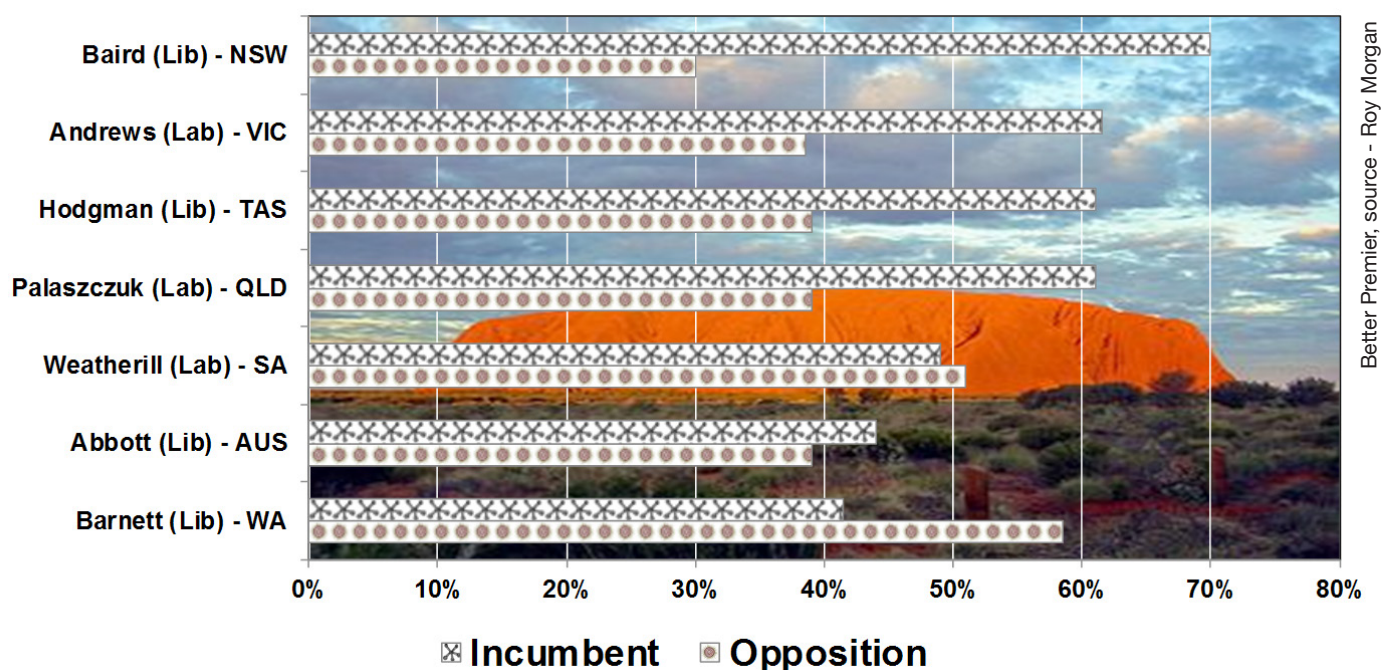
• **Great leaders assume the status quo**

**is risky:** The truth is that humans are almost immune to incremental change. They do not see it as it happens, and are shocked when after a decade of small changes, month by month, a new paradigm has emerged. Whether it is the death of Nokia, or the eventual emergence of an electric plane that can cross the Pacific, revolutions are often born out of incremental change. Like the proverbial frog placed in a pan of cool water, incumbents rarely wake up to the imminent risk of being boiled alive. In contrast, great leaders are paranoid about where incremental change will lead, and it spurs them to take near term action to reposition their businesses and their countries for advantage over the long term, not just the short.

• **Great leaders recognise that short term tactics will have little long term impact:**

No matter how tempting it may be to fight ad hoc problems with ad hoc solutions, the great leaders recognise that this is a waste of their time. Short term responses will only ever buy them momentary respite. And the pressures of changing circumstances will mean that they never, ever get their head far enough above water to catch their breath, let alone to make a real impact. In business, this means that chasing the latest market fad is a dangerous strategy. If short-termism really worked, then we would surely have seen an increase in CEO tenure over the last twenty years. In government, it means that sloganeering and spin is much less likely to improve economic performance and social welfare than a clearly articulated and effectively implemented long





term plan. In contrast, the irresistible media quote frequently returns swiftly, armed with Great White teeth, savaging the original speaker. Thus short-termism can undermine political fortunes with incredible speed.

• **Great leaders are prepared to nail their colours to a long term mast:** The strongest leaders recognise that talk is not enough and that they must explain publicly where they are trying to go, and how they are going to get there. This may imply a tough and uncertain journey, but has the enormous merit of providing a pole star to guide them through all the short term distractions. Such destinations must be chosen exceptionally carefully, as they must be possible to achieve. Concrete promises that cannot be fulfilled will haunt anyone who makes them. But this does not mean that destinations should be cautious. The greatest new businesses of the last twenty years – companies like Apple, Google and Tesla – have pursued hugely ambitious objectives to create entire ecosystems of opportunity. These businesses do not have the elegant simplicity of many classic tech start-ups, and the opportunities that they are chasing will be much more complex to bring to life. These companies have had the confidence to shoot for the stars. Their potential is extraordinary and they have no fear in accepting the uncertainty that comes with this territory.

#### **Could this work in Australia, or is it no more than a romantic dreamtime vision?**

In the corporate sector, companies such as Cochlear and Flight Centre have built businesses that are absolute world leaders in their respective fields. These companies have not simply ridden up on the rising tide of 23 years of economic growth, but

have looked up and out from domestic markets. They participate deeply in some of the world's largest economies and have navigated technological revolutions and economic turmoil, and they have emerged victorious. They have grappled with dramatic changes in their industries, and live every day with uncertainty as to what the future holds.

Yet, despite their extraordinary successes on a world stage, they do not spend much time in a self-congratulatory haze. They continue to look forward, accepting that the businesses that they have today may be barely recognisable a decade hence. And these journeys are not without their turbulence – both companies have had ups and downs in their share prices. So a focus on continuous long term development is all the more important.

In Government, the New South Wales Treasurer Mike Baird was catapulted literally overnight into the Premier's seat following a corruption scandal which took down the previous leader. His first speech as Premier centred on a bold commitment to transform the NSW economy over the long term. This would include the politically sensitive sale of electricity distribution and transmission businesses, to pay for massive investment in new road and rail infrastructure.

Rather prophetically, a year earlier he had commented "Whether in Government or business, the daily challenge is how to deal with the short term crisis whilst balancing long term needs... Change involves risk however it also may be the very reason that you remain in your job." These comments had been prompted by my book *The Long Term Starts Tomorrow*, which makes the case that a long term perspective is the best way to approach critical decisions in a short term world.

Despite the enormously challenging political circumstances in which Baird became Premier, he has rapidly established a position as Australia's most popular political leader, and was returned with a resounding majority in the election a year later. Unsurprisingly, in my view, the inevitable short term media cycle appears to have little impact on his leadership, as he can continue to focus on, and talk about, delivery of the long term goals.

All of this shows that there are fantastic opportunities to be taken, for those that have the courage to take them. The most ambitious Australian companies will surely spread their wings and fly into other markets, making the most of a strong domestic economy whilst exploring new opportunities for expansion and reducing their concentration of risk in a single economy. Although the conditions for doing this may be less favourable than a couple of years ago, it is still not too late.

The moral of these stories is very clear. The most successful leaders around the world are playing to a different set of rules. They are not constrained by the past and they are not slave to the status quo. They recognise that short term tactics are unlikely to give them the air to breathe and truly lead, and so they are prepared to commit publicly to a bold long term destination. This allows them to make strong, apparently bold decisions, safe in the knowledge that their choices will prove wise in hindsight. Do you have the courage to join them? **P**

Nigel Lake is CEO of Pottinger and author of *The Long Term Starts Tomorrow*. He has previously lived and worked in most of the world's top thirty economies.

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## Latest issue from Pottinger Perspectives:



Another week – another leading company waxes lyrical about the opportunities presented by “Asia”. Somewhere up in management consulting nirvana, faceless men in dark suits have constructed a parallel universe in which the 50+ countries in Asia have been seamlessly blended into a single market, with a single currency and a single culture. Excited corporate executives venture on overnight flights of fantasy to the new capital of Asia, an unknown city at the centre of a non-existent country whose main airport lies conveniently right at the foot of the rainbow. The streets are, of course, paved with gold.

<http://www.pottinger.com/chasing-the-rainbow.html>

### About Pottinger

Pottinger is a multiple award-winning strategic and financial advisory firm.

We de-risk M&A transactions and strategic transformations by integrating strategic insight, transaction expertise and data analytics, enabling leaders to make decisions that stand the test of time.

We work with clients who are ready to think differently and act differently. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice
- Risk, sustainability and related decision-making

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our experience covers most of the world's larger economies, and we enjoy the complexity of assignments that extend across borders and cultures.

We are regarded as an industry leader in productivity and as a role model for investment in our people. We have been recognised by the Australian Government's Workforce and Productivity Agency as a benchmark for effective skills development and for seven consecutive years we have been awarded “Recommended Employer” by the Australian Business Awards.



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