

## **Investing in a Plan – Retail ITO – October 2007**

### **Bid for Additional STM Allocation**

2007 Baseline = 1148 STM  
Likely 2007 achievement = approx 1200 STMs  
Bid for 2008 – 1800 STMs

### **Additional STMs sought for 2008 = 652 (\$2,086,400 inc GST)**

This bid is justified on the following TEC investment criteria:-

**Priority 1\* expansion** “Into industry areas, within the ITO’s gazetted coverage, for which the ITO has not arranged for the delivery of training to date”. We plan significant expansion in the Wholesale and Distribution industry which has had virtually no trainees over the years and which needs expansion of both training and a range of new qualifications.

### **Rationale**

The Retail ITO has had almost no impact on the Wholesale and Distribution sector in its history to date. That industry employs 107,000 people who are employed by some 6,500 employers. Industry training numbers, even when one includes trainees arranged by some other ITO’s, which have involved them in the sector, have been very low indeed. There has been next to no delivery or uptake by TEO’s of qualifications relevant to the sector (see data attached).

**There is a very significant opportunity to effect productivity gains for the entire economy in this sector** because it has a direct impact on almost all aspects of the “tradeable economy” – including agriculture, horticulture and manufacturing - and in many aspects of the services sector which include goods in their business. Furthermore, the data provided below shows that the sector has a relatively large proportion of highly skilled occupations but a lower rate of achievement of relevant qualifications than the workforce average.

There are “Distribution” qualifications at Levels 2, 3 and 4 of relevance to this sector. We will, however, complete a comprehensive scoping study of the sector in the final 3 months of 2007 to gain more precision about the skill development needs to be met – occupationally and demographically. There are a number of occupations involving large numbers of people – Sales Representatives, Buyers and Logisticians for example – for which there are no industry specific qualifications as yet.

Demand from this sector is very strong – as evidenced by input from 3 Retail ITO Board members (Progressive Enterprises, Foodstuffs and The Warehouse) whose companies together employ over 50,000 people – a number larger than many entire industries. These Board members have sought to get the ITO to increase delivery in Wholesale and Distribution for some years.

**Priority 2\* expansion** “to achieve higher penetration in [the] uptake of industry training by a greater percentage of the employers and trainees within the industry”.

### **Rationale**

As at the 2006 census, 238,000 people were employed by some 20,000 employers in retail and 107,000 employed by some 6,500 employers in wholesale and distribution. The industry covered by the Retail ITO therefore constitutes 17.4% of the entire labour market. **In 2006 the industry accounted for \$61 billion expenditure out of a Gross Domestic Product of \$156 billion (39%).** [See also the extensive range of data attached.]

Over the past 5 years, an average of only about 3000 people have entered into training agreements with the Retail ITO each year – less than a 1% “penetration rate” of the industry labour force compared to the average of about 8% achieved by all ITOs. The Retail ITO is in a similar position to that of many ITOs some 5 to 7 years ago – i.e. we have yet to gain the kind of acceptance of the need for training, and belief in the efficacy of ITO intervention, that is now the norm in many industries that are well served by their ITO.

### **The relative importance of the industry in the economy**

It might be considered, for effective spending of government assistance programmes, that some other industries have a greater potential impact on NZ’s overall economic wellbeing. Even if that is so, any objective measure would suggest that whether you look at it from

- the relative importance of the industry in terms of the government’s “Economic Transformation” / productivity promotion agenda,
- or from the potential to effect improvements in the relative position of Maori, P.I. and young people,

the retail/wholesale industry has not received an appropriate share of available government assistance to effect pro rated or weighted improvement in skill development to influence productivity or the position of its large workforce.

### **Duration of Investment**

The Retail ITO seeks a 3 year funding agreement at STM levels of 1800 in 2008, 2300 in 2009 and 3000 in 2010.

**N.B. These are lower than the STM figures of 2000, 2700 and 3600 provided on 27 August in the “Mix of Provision” template.**

## **Investing in a Plan – Retail ITO – October 2007**

### **Plan Context**

#### **Scale of the industry and the penetration rate**

1. As at the 2006 census, 238,000 people were employed by some 20,000 employers in retail and 107,000 employed by some 6,500 employers in wholesale and distribution. The industry covered by the Retail ITO therefore constitutes 17.4% of the entire labour market. In 2006 the industry accounted for \$61 billion expenditure out of a GDP of \$156 billion. (See also extensive range of data attached.)
2. Over the past 5 years, an average of only about 3000 people have entered into training agreements with the Retail ITO – less than a 1% “penetration rate” of the industry labour force compared to the average of about 8% achieved by all ITOs. We are in a similar position to that of many ITOs some 5 to 7 years ago – i.e. we have yet to gain the kind of acceptance of the need for training, and belief in the efficacy of ITO intervention, that is now the norm in many industries that are well served by their ITO.

#### **Wholesale / Distribution has been especially disadvantaged**

3. The Retail ITO has had almost no impact on the Wholesale and Distribution sector in its history to date. Industry training numbers, even when one includes some other ITO's, which have involved themselves, have been very low indeed. There has been next to no delivery or uptake by TEO's of qualifications relevant to the sector (see data attached).
4. There is a very significant opportunity to effect productivity gains for the entire economy in this sector because it has a direct impact on almost all aspects of the “tradeable economy” – agriculture and manufacturing - and in many aspects of the services sector which include goods in their business. Furthermore, the data provided below shows that the sector has a relatively large proportion of highly skilled occupations but a lower than workforce average rate of achievement of relevant qualifications.
5. The Retail ITO does have “Distribution” qualifications at Levels 2, 3 and 4 of relevance to this sector. It will complete a comprehensive scoping study of the sector in the final 3 months of 2007 to gain more precision about the skill development needs to be met – occupationally and demographically. There are a number of occupations involving large numbers of people – Sales Representatives, Buyers and Logisticians for example – for which there are no industry specific qualifications as yet.
6. Demand from this sector is very strong – as evidenced from input from 3 Retail ITO Board members (Progressive Enterprises, Foodstuffs and The Warehouse) whose companies together employ over 50,000 of these workers. These Board members have sought to get the ITO to increase delivery over a number of years.

## The relative position of the industry in the economy

7. It might be considered, for effective spending of government assistance programmes, that some other industries have a greater potential impact on NZ's overall economic wellbeing. Even if that is so, any objective measure would suggest that whether you look at it from
  - the relative importance of the industry in terms of the government's "Economic Transformation" / productivity promotion agenda,
  - or from the potential to effect improvements in the relative position of Maori, Pacific Island. and young people,

the retail/wholesale industry has not received an appropriate share of available government assistance to effect pro rated or weighted improvement in skill development to influence productivity or the position of its employees.

## Funding to date

8. In 2007, the Retail ITO received 2.24% of the funding provided by the TEC to all ITOs (1148 of the 51,266 STM allocated). Growth in STMs allocated has fallen far short of that achieved by kindred ITOs in the service industries. HSI and ATTTO almost doubled STMs from 2004 to 2007 and have far more STMs than is available to the much larger retail and wholesale industry. Even if the Retail ITO was to achieve half of the penetration rate achieved by all ITOs (4% against 8%) it would need to increase training agreements from 3200 to about 13,800 per annum. Meanwhile, funding applied by the rest of the tertiary sector which can in any sense be said to focus on the needs of this industry has been minimal.
9. There is, we believe, a prima facie case to increase funding to the Retail ITO by a significant and increasing amount over the next 3-5 years. The issue is not about whether government assistance to the industry – and its employees – would be appropriate, but rather whether the Retail ITO and the industry itself can make good on the opportunities for improvements that are available. We must make our case for an ability to do so in the following context:-
  - the industry forms part of the "service industries" which now make up almost 70% of the workforce and continue to increase their share of the total numbers employed (hence the importance of our membership in SITA)
  - the industry is barely served in terms of provision by either the ITO or the wider education system (see data herewith on the very limited amount of tertiary provision devoted to retail or wholesale)
  - there is significant scope for major productivity gains to be made in the wholesale sector by "working smarter". That industry sector is characterised by large numbers of highly skilled staff and management and a range of occupations for which qualifications have yet to be developed – buyers, specialist sales representatives, logistics managers etc.

- there is also significant scope for productivity improvement in retail from the adoption of multi channel sales made possible by the Internet and other technology (all of which involve, and can be utilised for, a new training paradigm).
- as attendance at any “retail industry trends” presentation will clearly demonstrate, the level of sophistication of the retail industry, and the pace of change, is increasing rapidly. (It can be argued that this is true of the whole economy but this just serves to underscore the need we know NZ has across the board for enhanced skill development.)
- there is clear evidence in the data supplied that many of the managers engaged in the industry are less qualified than the average for managers in the general workforce. Qualifications at the lower levels are more in line with the overall average but this needs to be further researched by the Retail ITO because the influence of school quals at levels 1-3 blur the picture.
- research into the extent and nature of the literacy and numeracy picture for each service industry sector is the subject of a SITA application to the E &SI Fund. Anecdotally, and given the high proportion of very young people in the industry, we believe that there is likely to be a significant problem in such a large, relatively low paid industry. Addressing foundation skill shortfalls will need more than pro rata STM funded responses.
- 2006/7 research in Australia has found that fully 85% of all young people have at least one job in retail before they move into the full time workforce. There is every reason to believe the figure will be similar in NZ. The industry acts as a “nursery” industry for tens of thousands of senior secondary and tertiary students and can, if well equipped to do so, provide a basis for the start of “lifelong learning” for all. For those who are not “academically minded”, this period is likely to be critical in building the personal resources and confidence needed to ensure they do not enter a lifetime lacking increasingly important foundation skills.
- we plan major engagement with secondary schools to promote a “career of choice” campaign and the take up of pre-employment and Gateway opportunities to underscore the real potential the industry has to offer a wide array of satisfying, well paid careers.

10. Given the:

- scale and geographic distribution of the industry;
- its importance as a “nursery industry” which also provides direct financial support to large numbers of students;
- the desirability of raising the bar on the preponderance of low paid work; and
- the involvement of very large numbers of young people and Maori, Pacific peoples and other migrant groups;

the potential for using the Retail ITO and associated organisations to effect social change is highly significant.

11. While it is building its credibility with the retail and wholesale industry, the Retail ITO should be supported to build its capability beyond the very limited level to which it can aspire with the current low level of “seeding” funding made available by the government.

## **Relationship of our Plan to the Government’s Goals for New Zealand and the TES / STEP**

12. Throughout this paper and the accompanying statistics and Strategic Plan, there is evidence that we plan to address issues with a significant bearing on “Economic Transformation” – the industry constitutes almost 20% of the economy after all – and on “Families Young and Old”.
13. The “Priority Outcomes for Tertiary Education” will all be influenced by our planned endeavours – perhaps significantly if the Government is prepared to invest in the direct work of the Retail ITO and in the consequences its efforts will have on establishing qualifications for significantly increased delivery or part delivery by tertiary educational providers and secondary schools.

## **Credibility of the Retail ITO Governance**

14. The Retail ITO Board has an independent Chair who has been the CEO of Kirkaldies and Stains. It has representatives of the largest 3 retailers in NZ, medium sized and small retailers, the NZ Retailers Association, which is a very authoritative industry body, the National Distribution Union and an industry recruitment agency CE who won the “Business Woman of the Year” title recently. It is a very capable and influential Board which has been seeking change in the operation of the ITO for some time.
15. The Board is keen to ensure that the ITO moves to a position which is supportive of training actually taking place – seeing the middle management group in such a large and extended labour force as key in ensuring that training is done well and therefore requiring the ITO to focus on “train the trainer” activities, perhaps through LCPs that encourage take up more than a full Level 4 qualification approach might do, at least initially. There is to be a lot of priority on the development of training resources which are very user friendly and which use multi media to overcome low interest or capability in the use of written material. The Board also wants focus on higher level qualifications dedicated to retail / wholesale and on the foundation skills that are very apparent to larger employers.

## **Financial Position of the ITO**

16. The Retail ITO was in a sound financial position based on surpluses achieved in recent years. In 2006 the surplus of \$973k for the year was greatly augmented by a change in the treatment of contingent liability which saw a nil provision for the liabilities for the "Accelerated Assessment Programme against a provision of some \$553k in 2005. In other words the underlying expenditure and revenue picture was more akin to a surplus of \$420k for a year in which income was \$4.23mm.
17. In 2007 we are budgeting for a deficit of over \$620k and the outturn may be nearer a \$1.0m deficit as we recruit staff to improve our training resources and provide more services / support to industry trainers and managers. Staff levels are being set at levels which assume growth in the STM level and net income from industry. By the time we have budgeted for the spending we intend for an improved business model in 2008, we expect to reduce our financial reserves to a level sufficient to carry the ITO for just 4 months.
18. The Board expects the ITO to use its reserves to make good some of the shortfall in resource development, staff development and research but notes that the reserves will not go very far in that regard.

## **Quality of Management**

19. The Board has employed a new CEO with significant change management credentials and a new Manager, Operations and Marketing who has extensive senior industry experience. The CEO is currently restructuring the organisation to ensure there is an ability to recruit a number of specialists in training resource development and research into best practice workplace learning. We aspire to developing a "centre of excellence" in the development of training resources / multi media learning tools and recruitment is already underway to give effect to this aspiration.
20. We have also recruited a Management Accountant to provide more timely and robust financial advice than we received from part time assistance from the NZ Retailers Association.

## **Quality and Number of Staff**

21. High calibre resource development staff has unexpectedly been found and they are enthusiastic about joining our team. We have also increased the number of field staff considerably to ensure there is the capability to make good on the change of direction described above. These employees will be trained to become Training Advisers who are also capable of doing assessment if circumstances warrant. They will be complemented by the employment of a number of assessors (to supplant a large numbers of contractors used to date) who in turn will be trained to act as Training Advisers when convenience dictates.
22. A significant investment in staff development is envisaged for the year ahead. The biggest operational risk we face is the time that may be

needed to develop the staff available to the levels of expertise / productivity needed for our purpose.

## **Collaboration – Service Industries Training Alliance, the NZ Retail Association and others**

23. One mitigation of that risk will be our determination to work more collaboratively with kindred ITOs and interested organisations. ATTTO and HSI, in particular, will be able to help us through guidance and access to available expertise. It is too soon to be able to predict specifics – and timelines – but it seems probable that there will also be savings attaching to joint software development, purchasing, sharing of staff in more isolated regions etc.

## **Retail ITO Strategic Plan – 3 Year Outlook**

We have appended our Strategic Plan for 2008 – 2010. This document provides an expansive overview of both the vision and mission of the organisation and of the detailed business plans for the 3 years. It is an aspirational document, particularly in its plans to develop a “centre of excellence” in training resources. Its implementation is heavily dependent on the government’s willingness to invest in a process of building the confidence and trust of the retail and wholesale industry in the efficacy of industry training.

The industry’s own contribution cannot be expected to become a major feature of the ITO’s funding until it has built quality products and services to a level which engenders a willingness to invest.

### **Attachments**

Labour force demographic data for the retail and wholesale industries

Retail ITO Strategic Plan 2008 – 2010

TEC Mix of Provision template - completed

TEC KPI template - completed