

**Latin America
Centre of
Asia-Pacific Excellence**



Glidepath: Customization, Competence and Commitment

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CASE HIGHLIGHTS:

- Finding a niche as a small company in a global market dominated by much larger firms.
- Building and sustaining commitment to expand in Latin America.
- Developing capacities for technical innovation and customization.
- Navigating market, currency and political risks.
- Developing a regional organizational approach to the Americas.

THE COMPANY

Glidepath Limited was established in 1923 and acquired in September 1972 in Auckland by Ken Stevens (now Sir Ken, after he received a knighthood for services to exporting on December 31st 2007). Acquired as a small general engineering company called Thompson Engineering, Glidepath has grown 47 years later into a world leading innovator and supplier of airport baggage handling, security systems and parcel sorting capabilities, with over 900 systems operating in 68 countries. Its centre of innovation excellence and headquarters have been in West Auckland since 1978. From having five employees when Stevens first took on the company, as of 2019 it has 283 employees worldwide, of whom around 130 are in New Zealand.

The company's vision is 'to be leading our industry sector as the most innovative and proactive provider of technological systems for our valuable customers.' Glidepath is now transitioning to grow as a technology and innovation company, embracing the opportunities that come with the current era of disruption, 'where there is huge opportunity for innovation to flow as we create the future.' In addition to baggage and parcel handling, Glidepath now offers its customers its proprietary software, designed to run on industry standard hardware, providing low cost of ownership, reliability, and future expandability. The company also provides full back-of-house maintenance, operations and service support, as well as capability to remotely access and control the sensors on any Glidepath bag drop anywhere in the world over a VPN link.

Glidepath's global sales revenues this financial year have reached over \$90 million, up from \$70 million in 2017. The company has received a suite of awards through the years, with the most recent being the 'Best

of the Best' at Westpac Auckland's Supreme Business Awards in 2019.

Glidepath has taken an incremental route to being a global company. Its early projects were in New Zealand, many for Air New Zealand and Auckland Airport. Its first foray into the international market was Melbourne in the mid-1970s, followed by projects in American Samoa and Niue. By the end of the 1970s it was still small, at around 20 employees, and Stevens could tell that they had reached the limits of the domestic market. While they had some work in Australia, he realized they were highly vulnerable with sales concentrated in this part of the world. So in 1980, he bought a multi-stop ticket to explore the United States, making 26 stops at airports in 30 days. He used the visits to explore opportunities and introduce himself to airport operators. In 1983, Glidepath opened its U.S. operations in Wichita Kansas.

This report focuses on Glidepath's experiences in Latin America, but its regional operations need to be viewed in the context of Glidepath's global presence. After entering the U.S. in 1983, Glidepath then focused on Asia. At times, the U.S. (from where it exited at the end of 2013, but is set to return) has been its biggest market. In the mid-2010s, its fastest-growing regional market was the Middle East.

Glidepath's first point of entry to Latin America was Chile, where it won its first project in 1999. It then undertook work in Peru in 2000 and moved on to projects in other Latin American countries. At this time Glidepath was still a small company by international standards, with around 40 employees. When they won their first project in Peru in 2000, the \$13 million in revenues it brought in accounted for over half of total global sales in that year. Since then, revenues

have been more geographically diversified, although varying from year to year depending on where larger projects are won. In 2018, it earned 8% of revenues in Latin America. It employs around 35 people in Santiago, Chile, and a smaller permanent team in Lima, Peru. Other employees outside of New Zealand are based in Canada, Malaysia, Australia and India, where opened a manufacturing plant in 2018.

Challenges

Glidepath's international growth means that it is now earns nearly 100% of its revenues abroad. This growth has taken place in a cyclical industry that is sensitive to both market and political disruption, increasing security requirements and technical challenges. Glidepath has faced several challenges and setbacks along its overall growth journey.

Building commitment within the firm

The first challenge in taking the business to Latin America, notes Sir Ken, was to sell the idea and to gain buy-in and commitment from within the firm. 'If you are going to establish yourself offshore in a branch office, you have got to sell it thoroughly to the home office staff and get them on board otherwise it will fail.' One of the key worries the employees had was the fear of their jobs being moved to the offshore location. There were also concerns that overseas expansion would, as has sometimes been the case, be a costly exercise that failed to generate sufficient revenues. Although New Zealand is now much more connected to Latin America, twenty years ago there were fewer established travel links and personal connections, making the region relatively unfamiliar.

Currency fluctuations and local prices

International projects can sometimes take long periods to complete and delay means the risk of significant currency changes between the time when a tender is put in for a project and payment being received. Most of Glidepath's projects in Latin America are quoted in U.S. dollars, but many of their costs are incurred in either local currencies or New Zealand dollars. When the New Zealand dollar has been high against the U.S. dollar, this has put pressure on the company to cut New Zealand dollar costs or risk being uncompetitive. At times, rising costs due to currency fluctuations have meant the company has lost money on some projects. In 2016, Sir Ken noted that, 'I look every day at the US dollar rate and other rates in the jurisdictions that we're working in and it's a very difficult thing. We can be put out of business overnight if the rate goes fiercely against you.' A few years earlier, he had noted that when the currency had gone dramatically against Glidepath after the terrorist attacks on the U.S. in 2001, the company had been 'over half a million dollars in the hole before they even began building the installation.'

Delivering projects in far flung locations also involves exposure to local prices, which need to be factored into tender costings. Although the company's technology and innovation centre is in Auckland, transport costs mean that more generic materials and supplies need to be sourced locally. There is also a need for local labour. Finding out the costs of both in a country like Peru presents a challenge for a New Zealand company unfamiliar with local suppliers and labour markets.

Size and competition

Glidepath is in the global market with about

a dozen large competitors that offer comprehensive baggage handling solutions. The three biggest competitors, Siemens, Vanderlande and Crisplant (now BEUMER Group) are European based and all much larger than Glidepath. With annual revenues in the hundreds of millions, in some cases over a billion dollars, they have the capacity to bid for projects that might run as high as \$500 million. These projects deliver to high-capacity airports that require products at a much larger scale than Glidepath has the ability to offer, given that passenger throughput in New Zealand and Australian airports (where Glidepath began) is much smaller than in airports in Europe and air hubs such as Singapore.

Major airport tenders also often call for large performance/security bonds – essentially promises to pay if things do not work out. And sometimes things do not work out, for one reason or another.

New and innovative products can be a tricky conundrum where a seemingly great idea can be scuttled if the background market has not been correctly assessed. One of the largest firms in the industry, Sir Ken points out, has had to essentially give away a new supposedly superior product when it failed to make the sales it thought were going to be easily secured, sustaining losses and industry ridicule that a company the size of Glidepath simply cannot carry.

Political risk

The political, regulatory and security environment in parts of Latin America can be challenging. Glidepath has stayed away from countries like Venezuela, given the political situation, and is cautious about places where the local security situation may deteriorate rapidly, either due to high levels of violent

crime or civil conflict. They have learned from previous experiences that, at extreme moments, they may need to get people out quickly. Even when not threatening in a physical sense, the local political environment has at times posed problems for the company. Sir Ken recalls a project in one South American country where 'the project was destined for a certain local competitor. But they didn't bid the right price – we did, and we won the job.' This, however, proved to be something of a tainted victory, at least in the short run. The losing local firm 'fought us all the way through' and their allies in one government unit, a longstanding rival of the agency that had commissioned the project, took every opportunity they could to put obstacles in front of Glidepath. These obstacles ranged from denying it entry to parts of the airport where they needed to operate to tying them down in lengthy, confrontational meetings, engaging in intimidating tactics and refusing to provide the sign-offs needed.

Meeting customer requirements

Glidepath has faced on ongoing challenges to meet customer requirements that are different in different places – as well constantly changing product and service specifications due to new security regulations, changing customer preferences, and technological developments. The challenges include knowing what the customer wants, what will serve their interests, how they want the project documentation presented, and how to maintain Glidepath's technical skills and organizational capacity to deliver.

National culture and sentiment can also colour how a firm is received in Latin America. Glidepath is aware that local sentiment in some parts of the region is not particularly warm

to approaches controlled through the U.S. Language differences are a potential barrier to communication. Sir Ken cautioned against assuming local counterparts in Latin America would be willing or able to speak in English. Cultural practices and expectations specific to particular countries could also affect both preferences for working relationships and the demands to meet the needs the ultimate end-users of Glidepath's systems, the traveling public. While the security-related technical specifications for baggage and parcel handling systems are effectively set in the U.S. (and European certification systems demand similar standards), the traveller interface could be different depending on the specific market served.

STRATEGY

The commitment to expand

Glidepath's willingness to incur the inevitable risks associated with expansion has helped them secure new markets in the Latin American region and other parts of the world. Nothing ventured, nothing gained. Sir Ken's attitude was set early. In 1975 the company won the tender for the baggage system at Auckland Airport. The \$200,000 bid was huge for them at the time, and the guarantees required by Auckland Airport meant Glidepath took on enormous risk in committing to it, not having undertaken work of this magnitude previously. 'It could have sunk us', recalls Sir Ken. He took the same approach when venturing into the Americas, demonstrating a willingness to explore unfamiliar markets and then communicate the opportunities to the team at home. He explains that any new venture is presented to the team in Auckland, where the buy-in for international expansion has to be planned before it is built. At this point he and

the senior leadership team will have done their homework and developed projections relating to the specific market and project that they can share with employees.

The understandable fear on the part of employees that their jobs will move overseas has been allayed through both continuous investments in increasing productivity in Auckland and demonstrating that the growth opportunities from international investments provide overall benefits. Sir Ken has noted that many of the staff in the company's Auckland workshop are long-serving, with several having been with the company more than 20 and often 30 years. 'They output more than twice as much as we used to 30 or 40 years ago because we've obviously become a lot more efficient at all aspects of the designing and manufacturing process.'

Managing market and political risks

Glidepath's first step into Latin America was to Chile. In a region that has experienced periods of economic and political turmoil, Chile by the late 1990s was 'a shining light economically' with generally stable and functioning systems of financial management. This made it a good entry point from which to acquire knowledge of the regional operating environment and capacities to deal with it. Santiago Airport was also part-owned by Vancouver Airport, which was already a Glidepath customer. Working in Chile – Glidepath has now provided all the baggage systems to airports in that country bar one – helped to prepare them to move into Peru where all of the baggage systems are Glidepath's.

While some currency risks can be hedged, continuously upgrading skills and design capacities has meant that the company has been able to limit its reliance on external

funding, avoiding the financial risks associated with a high debt load or the need to answer to external sources of capital. Glidepath has also made it a point to acquire first-hand understanding of local pricing and markets, again as a risk-reduction strategy. They do not use external consultants for this kind of task – figuring out how to instruct them properly was more demanding and less reliable than acquiring the knowledge first hand. So how does a New Zealand company work out the price for a baggage handling system up-river in Peru? Sir Ken describes their practice this way: 'Well you go to the market [in the place you'll be installing] and you shop around and find out what the cost of living is and what prices are like and what gearboxes cost in that country, what the hourly rate is and things like that.' He personally would visit markets, working through an interpreter, take physical site measurements himself and check things out in a hands-on way. Typically this would take three or four days.

The difficult episode when Glidepath was caught in the crossfire between local players with their own rivalries called on the company to innovate in its tactics. Recalling the time when local players ran interference after Glidepath won a tender over a politically-connected firm, Sir Ken notes that they needed to adapt their game. He made frequent visits to the country to provide in-person support to the country team, and also called on the good offices of the New Zealand government. And Glidepath showed themselves able to run a bit of interference themselves, all the while remaining polite and pleasant: 'We would test the system at 3am. Not the time when they wanted to stick around.' And if one person refused to sign off on work done, they would find a go-around.

Niche differentiation and collaboration

Glidepath has addressed what might have been a disadvantage in terms of scale – being much smaller than the very large firms that operate in the industry – by developing its own niche profile. They prefer not to operate at the financial scale required for the largest airports, and are happier to have pursued what Sir Ken describes as the 'tier 2' airports - of small or medium capacity, which need systems of a smaller size. In 2013, Sir Ken described the firm's niche strategy in these terms: 'We try and limit any one contract to about US\$20-25 million, so effectively we handle what you would term as the intermediate contracts. The huge international contracts for places like Abu Dhabi, Dubai or Singapore run into the hundreds of millions of dollars, and we simply don't play in that space.'

The 'tier 2' niche is where Glidepath has honed its technical expertise, and by doing so has at least partly side-stepped competing with the giants. Latin America is one region where this differentiation and niche targeting has paid off, due the large number of relatively small airports (often in remote locations with poor land connections) in the region.

Carving out their own niche means that they have in fact been able to collaborate with and learn from some of the largest firms in the industry. Glidepath has had collaboration and knowledge-sharing arrangements with both Siemens and Vanderlande, for example. At times, Glidepath is able to draw on equipment owned by its large-firm partners. This strategy means that the firm has increased its capacity, having 'built long-standing and trusted relationships that let us partner and collaborate with the best in the business to deliver the technologies and solutions to drive large scale projects.'

Observation, customization and innovation

Sir Ken commits regular visits to sites, learning by observing, right from his first visit to Melbourne airport in 1973, when he put on a pair of overalls to get under the baggage system. Glidepath tends to keep regular contact with airports where its systems are installed, not only to provide maintenance and support but also to keep abreast of developments on the ground in a context where requirements are changing rapidly and that provides opportunity. Employees with relevant language and cultural skills who understand the need to adapt to the local conditions support this strategy. Regular visits and having local employees is important for winning repeating business in a country- in Peru, the successful project in Lima led to nine consecutive projects at smaller airports.

A long-term partnership with Vancouver Airport has not only opened the door to further projects, but has also kept the firm ahead of the curve in looking at the baggage systems from the end-user traveller's perspective. Sir Ken cites Vancouver Airport as an example of being 'at least one step closer to the customer than we are. They have revolutionised how we think of things in airports – it has been a valuable partnership in that respect.'

Technological innovation in both hardware and software has been critical to Glidepath's success. Right back in 1990, the company gained New Zealand government support to help cover the costs of learning the IT skills for baggage automation, in cooperation with Hughes Aircraft Corp. of California. As technology has developed since then, Glidepath has continuously invested in acquiring new skills in the areas of software development as well as engineering.

Localization and regional organization

The company's approach to structuring its operations regionally and localizing where necessary has helped Glidepath manage its operations in Latin America and pre-empt the potential for cultural misunderstanding. It has put teams on the ground in the region, made up of both expatriate and local employees, and the Auckland leadership maintains regular contact. In a region where personal relationships with employees are a priority, a personal presence and staff who speak Spanish or Portuguese as necessary, this approach has paid off. Members of the in-country teams 'are like family', says Sir Ken.

Being a New Zealand firm has some advantages when it comes to winning tenders and operating in Latin America. Sir Ken notes that some American rival firms would present their technical drawings and specifications using imperial measures – pounds and inches. Glidepath was of course already operating in the metric system, which is used in Latin America. Being from a small country, helps New Zealand firms in the region differentiate themselves from the negative stereotypes of American arrogance that still resonate in parts of the region.

Being sensitive to local perceptions means that Glidepath has organized regionally, with a division of labour between its team in Chile, from where projects in Central and South America are managed, and its office in Vancouver, which manages both Canada and the Caribbean. Caribbean people 'don't like Uncle Sam coming down telling them how to do their business.' When it re-opens operations in the U.S., in 2019 that office will manage Mexican projects, taking advantage of communication links and the North American free trade agreement, now re-badged as the USMCA.

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