Public Submission by Angela Ogier Chief Operating Officer NZRS Limited on the proposed structural changes to the InternetNZ Group.

1. Summary

My submission relates to changes to the InternetNZ Group of companies and not the InternetNZ Council. I have no comment on changes to the InternetNZ Council.

I support the change proposal.

As Chief Operating Officer my remit is finance, strategy and governance. I believe that the proposal will enhance these areas for the following reasons:

- There will be fewer levels of reporting, allowing better control of the strategy and performance of the organisations
- The cost burden of reporting and governance will be reduced due to simplifications in the structure
- The strategy process will be able to be simplified with fewer approval loops and less risk of misalignment

I see this move as first step to moving the organisation into a strong position to address future growth challenges in .nz revenue generation. I'd like to set out the challenges facing the organisation and how the proposed structure enables a response to these challenges.

In terms of the proposed structure and transition, I am focussed on practical matters:

- The new CE should be appointed as soon as possible to give certainty to staff around their roles
- There needs to be budget put aside for work on a shared culture to turn structural changes into seamless operation
- The new organisation needs a commercial heart to drive performance and leverage revenues from .nz and other investment sources
- The new organisation needs a shared business intelligence function for both internal analysis to drive performance against service levels and budgets and external analysis for regulatory and marketing purposes
- Work should begin as soon as possible on integrating systems across the business.

I'm excited by the prospect of helping to build a stronger, future-proofed organisation with a performance culture that leverage our current strong talent pool.

I would be happy to discuss these comments with the interim Programme Manager and Council as required.

2. Future Revenue Growth for .nz

The registry growth for .nz compared to other ccTLDs and legacy gTLDs is shown in the tables below. We see that .nz growth had steadied after a rapid decline but this is probably due to registration at the second level. Other mature ccTLDs are showing similar levels of growth. By contrast, however, emerging market ccTLDs and new gTLDs have shown substantial growth – potentially driven by increasing internet usage in the first instance and a move away from legacy gTLDs in the second instance.

Table 1: .nz growth, established ccTLD growth and legacy gTLD growth[1]

	2013	**2014**	**2015**	**2016**	**2017**
.nz	10.16%	4.48%	15.00%	3.85%	3.95%
be	10.40%	6.48%	4.05%	2.87%	1.28%
de	3.69%	2.02%	1.40%	1.25%	0.65%
es	10.68%	5.10%	3.46%	2.27%	2.40%
se	3.32%	6.40%	-0.84%	5.07%	3.40%
.au		7.38%	5.98%	3.57%	1.76%
.com	7.17%	5.56%	3.73%	6.37%	2.90%
.org		2.80%	1.24%	4.19%	-3.46%
.net		1.99%	-0.40%	4.18%	-1.15%

Table 2: Emerging market and new gTLD growth[2]

	2013	**2014**	**2015**	**2016**	**2017**
.id		8.19%	11.22%	33.25%	49.94%
.cn		28.00%	16.69%	33.68%	37.31%
.in					29.19%
.nu				3.16%	23.60%
.hk		5.09%	7.22%	35.75%	18.50%
.tw			-7.80%	-7.97%	11.57%
.vn		14.73%	12.08%	16.60%	11.38%
New gTLDs		-9.34%	23.21%	50.80%	82.25%

From my study of the domain name market I foresee the trends in established TLDs continuing. The days of 15% growth fuelled by land grab speculation are clearly over for established TLDs. This is due to the radical increase in real estate from new gTLDs.

We have 682,527 names in the registry (end FY 2017) for population of approximately 4.5 million. There are a further c.345k other gTLD names registered in NZ[3]. This represents around 21.6 names for every hundred people in NZ. While the Netherlands has 51.7 names for each 100 people, other developed nations have much lower levels of names (e.g. France has only 14.1 names per 100 people). It may be that NZ has already reached market saturation. We do not know.

[1] NZRS Research (ccTLDs) and CENTR stats (gTLDs)
[2] CENTR stats
[3] Based on data from Matthew Zook, pers. comm. 15/05/17

The question therefore needs to be asked: what is the ultimate growth potential for the registry in absolute numbers of names? And what level of revenue will that generate at an acceptable wholesale price?

Based on the facts above I draw the conclusion that we must begin to view ourselves as a utility. As a utility our growth is based on population and prevailing business conditions. There can be no further expectations of double digit growth. In terms of price we are reasonably priced in relation to alternatives, such as .com, and therefore raising the price would be difficult to justify. We also need to consider the public good element of pricing. .nz is a registry for New Zealanders and we need to ensure that the registry remains reasonably priced for New Zealanders to access.

In short: Winter is coming. A mild, wet NZ winter, but definitely not summerly in the least.

I see an imperative for this organisation to safeguard for this coming winter. This is both in terms of operational savings and in terms of building income independent from .nz revenue. I believe that the current Product and Service Development strategy has been a good first step, but more needs to be done and new competencies need to be developed to manage and maintain the commercial heart of the organisation.

3. What does this mean for the Organisational Review?

The organisational review offers an opportunity for resetting commercial objectives.

Firstly, we need to build a coherent long term plan for the business as to how large .nz operations will be, what the public good programme will be and how the regulatory aspects will be managed. The ability to transparently share financial and operating data in the new organisation will allow open and frank dialogue between leaders and their governors about matching the funding of operations with the available revenue.

Shared services across the group will allow for cost reductions. This is unequivocal. Consolidating contracts and purchasing across the group will reduce operating costs. Moreover, the use of common systems and uniform equipment across the group (right down to a common calendar system) will reduce operations and maintenance costs.

Common budgeting and treasury management in the new organisation will reduce transaction costs. It will free up time currently taken up with transferring money around the group and allow that time to be spent monitoring financial performance.

Common governance structures in the new organisation will also ensure that capital and operational expenditure is controlled uniformly and distributed evenly across the group. This will ensure assets are viewed as group assets and investment decisions are assessed in terms of adding to the overall mission of InternetNZ rather than subsidiary missions. While these missions should be concordant, the current distribution of capital around the business can lead to disproportionate investment in some parts of the business as projects in one area of the business are not assessed against projects in other subsidiaries.

3.1 Leveraging .nz Revenue

We currently have significant sums of money held on term deposit sourced from the prepayment of domain name registration fees. The reasons behind holding these funds in a retail investment vehicle have been explained to me as being due to the at will termination clause in the .nz Operating Agreement. The current investment programme is prudent and guarantees no loss. However greater returns could be made through active investment of a portion of these funds through professional funds management. The removal of the operating agreement constraint would allow a risk based approach to investing to be taken that leveraged these funds. This is a positive first step.

Currently interest on these term deposits mingled directly into the NZRS operating income. This approach 'washes through' in terms of an increased InternetNZ dividend, but exposes the interest income to leakage into the NZRS operating budget. I would suggest that these interest gains should be ringfenced for investment activity. Given the sizeable nature of interest payments we could make substantial contributions to reserves to offset future decreases in domain name revenue.

Finally, there is the method of investment. Currently NZRS undertakes business development based on products related to .nz operations. Development and operations are in house.

We need to look wider than these investment opportunities. InternetNZ has a mission: *A Better World through a Better Internet*. I see an opportunity for us to repurpose our grants programme as follows:

- Community grants – this will always be part of our core mission
- Social enterprise investments at nominal return (e.g. low cost security services for non-profits)
- Venture capital investments in New Zealand business building quality products that enhance New Zealanders' access to and value derived from the internet. This builds a stronger technical community in New Zealand and therefore supports our core mission.

A united group will be able to have a transparent discussion on investment parameters that support our charitable objectives and maintain charitable status.

3.2 Leveraging Organisational Cost Savings

We know that we will have an operational gain from the consolidation of the businesses. This gain needs to be estimated early on in the integration process. The savings need to be tracked and reported to the Council as we go through the process. Moreover, let's ringfence these savings for our future proofing fund. In this way we can leverage the cost savings of the organisational review to ensure that we have a sustainable business going forward.

4. The Proposed Structure and Transition

In terms of the proposed structure and transition, my concerns are based around ensuring stability for staff, providing for a smooth transition and setting up the new entity as a high performance organisation with clarity of purpose among the teams.

The current organisational review process has been ongoing throughout my tenure at NZRS. Staff are being affected by the uncertainty and projects are being put on hold due to the organisational review. It is very important for staff that certainty around their roles is obtained as soon as possible. Not only is it stressful for staff, there is an increased risk of losing talent the longer the process drags on. I would therefore ask that the appointment of a new CE and the implementation of the new organisation is expedited as much as possible. I would also ask that clear deadlines are communicated with staff for all processes as this will reduce stress.

While the change in structure is one element of the organisational change, the other element of the change will be a cultural shift. Budget and staff time must be put aside to work on building a common culture for the group. This will necessarily require a certain amount of unlearning of current behaviours that were based on the current structure. This will take time, require expert assistance and require some outlay. However, without work on culture, there is a risk that new silos will be erected in the new structure.

In terms of the new structure, there appears to be little focus in the proposal on performance and revenue. These would appear to be covered under 'shared services'. Given the challenges we face in terms of revenue and the opportunities we have in terms of application of our surplus to invest in NZ, there is a need to strengthen commercial expertise in the business. It would be unfortunate to make the change we are proposing and lose the financial benefits of the change as there was a lack of commercial focus in the business to drive savings and measure progress against stated goals. I see a need for a commercial heart of the organisation to be explicitly built not only to drive and measure cost savings but also to monitor and grow revenue from all sources. This will maximise the revenue available for fulfilling our charitable objects.

In order to support a commercial, performance-driven approach to revenue generation we will need to have a common business analytics service. This would analyse and prepare reports on performance internally and provide market intelligence to support strategy and investment activities. Moreover, much of the external market intelligence work performed would also support market regulation functions of the domain name commission – they are two sides of the same coin. It is therefore proposed that the analytics service is a shared service housing data analytics.

Finally, there is much work to be done. There is a large number of systems and processes to be integrated from HR to computing systems. Some of these are independent of the eventual internal structure of the business. I would suggest that a taskforce of staff is formed as soon as practicable after the decision to progress work on this issue. This will ensure that the new CEO will come into an organisation that has already considered many integration issues and is ready to move to a single organisation.

I am happy to discuss any of the above points with the Programme Manager, working party or wider Council. Thank you for your consideration of my submission.

Regards,

Angela Ogier
Chief Operating Officer
NZRS Limited