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## Product and Services Development Strategy

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### Introduction

InternetNZ is involved in the development of new products and services to deliver additional value to the New Zealand Internet community and to reinforce sustainable financial resources for the organisation in the long term. New services and products can give Internet users new choices. More income will allow InternetNZ to do more to pursue its objects, and to work in the public interest to promote the Internet's benefits and uses and protect its potential.

InternetNZ's only significant funding source today is from registrations of .nz domain names<sup>1</sup>. These funds allow for the operation of the .nz country code top level domain, and the surplus funds all of InternetNZ's activity.

InternetNZ operates the .nz ccTLD on behalf of the Internet community. In Council's view, it would not be prudent to assume that it will always have that role (though no changes are anticipated).

Since InternetNZ's vision is not likely to be realised in the short or medium term, and since greater financial resources would allow more work to be done in achieving it, a sustainable and diversified set of income sources are a requirement to ensure ongoing operations. Applying our ability and skills to offer new products and services is also of benefit to those that choose to use them.

This Strategy sets out the goal for our product and services development efforts, the things we need to change to achieve that goal (strategic "transformations"), and the approach we proposed to take in doing this work.

It consists of the following sections:

- Our goal in product and services development
- Key strategic transformations
- Approach to product and services development
- Product and services development "pipeline"
- Limitations on product and services development
- Key risks and mitigations

There are a number of practical considerations about how this work is managed across the InternetNZ Group. These are set out in the "Group Policy – Product and Services Development", a governance policy of the Council that is binding across the group.

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<sup>1</sup> Total income across the group was \$8.7m in 2014/15, and InternetNZ received around \$2.7m of this by way of dividend from NZRS. An infographic showing the use of funds is available on the website at <https://internetnz.nz/about-us/internetnz-group>

Success in this work will be measured against the goal set out in this strategy. It would benefit New Zealand's Internet community by securing more resources for work on the Internet community's priorities. It will deliver new products and services for people to use. It would be demonstrated proof of an innovative, changing organisation that can take on new things and achieve more than it does today.

## **The Goal of Product and Services Development**

The goal for product and services development is to diversify revenue sources away from those that rely on InternetNZ's role as the .nz ccTLD manager. Our 2015-2020 Group Strategy defines the goal as follows:

One million New Zealand dollars of group income (revenue) comes from sources other than registrations of .nz domain names.

In practical terms this means:

- By the end of the 2019/2020 financial year, there is reasonable confidence that in the financial year beginning 1 April 2020, there will be \$1m/year in revenue from the operation of products and services not in place at 1 April 2015.
- Such products and services will not be .nz domain name registrations. Some may have no dependence on our current role as .nz ccTLD manager – that is, they would be unaffected by a change in .nz ccTLD manager. Others may rely on continuing to be the .nz ccTLD manager. Either counts against the target.

Besides delivering on this Goal, we anticipate a number of other benefits from undertaking business development:

- Increases InternetNZ's resilience to the negative impact of volatility in the domain name market.
- Embeds a culture of innovation and keeps InternetNZ in touch with the changing needs of Internet users.
- Extends the delivery mechanisms available to InternetNZ to include direct service provision, which may be the best way to deliver a particular Object.
- Expands the funds available to InternetNZ to use in pursuit of its Objects.

## **Strategic Transformations**

The following strategic transformations drive product and services development.

A "strategic transformation" notes a current situation or reality, and then defines what you want the future state to look like. The aim is to test your progress "from" the current state "to" the desired future state.

These are the Transformations from the Group Strategic Plan<sup>2</sup>:

Group Strategy Transformation/s		
	From	To
5	All significant group income is dependent on being the designated manager for .nz	\$1m of group income (revenue) comes from sources other than registrations of .nz domain names
5.1	Clarity about forms of product and services development to be pursued is missing	Agreement across the group regarding what forms of product and services development to pursue
5.2	No clear product and services development strategy	Clear product and services development strategy agreed after engagement with membership
5.3	No commercial products developed and in production	Three commercial products developed and in production by 2018

5.1 and 5.2 are realised by this Strategy. 5.3 is a route to delivering the overall goal<sup>3</sup>.

The following Product and Services Development Transformations complement those from the Group strategy, and NZRS as lead entity in pursuing this work is tasked with bringing them about.

Product and Services Development Transformations		
	<i>From</i>	<i>To</i>
1	One product is in production	Three commercial products developed and in production generating positive cashflow (by 2018)
2	A number of product/s in development	1-3 commercial products in development at any one time (by 2017)
3	Single channel/customer base of registrars/registrants	Dual channel/customer base of registrars/registrants and ISPs/Internet users
4	InternetNZ group not known as conducting product and services development	InternetNZ group recognised as succeeding at product and services development

## Approach to product and services development

The following broad elements comprise the approach to product and services development that is being taken to deliver on the goal and the transformations set out in the previous section:

<sup>2</sup> Note: this is how the Group Strategic Plan will be amended if Council approves this Strategy.

<sup>3</sup> At the time of writing the first product had entered production – the National Broadband Map, available at <https://broadbandmap.nz/>

### *Who is responsible for doing it?*

- NZRS is tasked with leading this work, as the commercial vehicle within the group with greatest capacity to do so. In particular, the NZRS Board is the decision-maker with respect to particular projects.
- NZRS through its Board is held to account by InternetNZ's Council for pursuing business development consistent with this Strategy and with the Product and Services Development Policy.

### *What sort of projects/products?*

- Product and services development projects must help to deliver InternetNZ's Objects.
- The general approach is to build on existing capabilities and strengths.
- Radical shifts in market focus that require divergent skill bases are unlikely to be preferred in the first instance without careful analysis.
- Projects of a range of sizes will be entertained, as to deliver the overall goal requires significant cashflow to be generated.
- There is a general preference for wholesale products – retail channels to market would only be contemplated in partnership with a proven retailer.
- There is a general preference for local markets.

### *Rates of return*

The Group Policy – Product and Services Development explains how rates of return requirements for this work are established on an annual basis. At a high level, the revenue targets set out in this Strategy are only useful if they result in profits or returns.

### *Transparency*

The resources deployed in business development are accounted for transparently. There is a cap on the resources that can be deployed (direct costs), and staff resources exploring and managing business development are visible so people understand at a high level the opportunity cost of doing product and services development.

## **Product and services development “pipeline”**

It is anticipated that most projects will be developed in-house by NZRS, but if a large project is contemplated a different ownership structure will be considered at the outset (may be a subsidiary company of NZRS, a new InternetNZ subsidiary, or some form of joint venture).

Where a project reaches the appropriate stage of success, NZRS will consult with InternetNZ as to whether it should be retained (i.e. for cashflow) and if so, as a separate company or as an NZRS activity, or whether it should be divested (i.e.

for capital gain). If the nature of the project requires a decision on this to be taken early, this is possible.

## Limitations on product and services development

The following broad strategic limitations apply to product and services development, and are set out in more detail in the Product and Services Development Policy:

- Projects must help to deliver InternetNZ’s objects and must not jeopardise the group’s charitable status.
- The limit on direct costs cannot be exceeded.
- No project will involve roles prohibited under the .nz policy framework (e.g. NZRS will not establish a .nz authorised registrar).

## Key risks and mitigations

There are some key risks that arise through the development process. These, along with key mitigations, are outlined below. NZRS does comprehensive risk management including for product and services development.

Risk	Mitigation
Perceived self-dealing / conflict of interest (commercial versus public good imperatives)	<p>Commercial activity is done by/in limited liability companies with governing bodies differently composed than InternetNZ Council.</p> <p>Transparency and community involvement in establishing policy principles and detailed stances on issues.</p> <p>Clear internal understanding of and external transparency around the relationship between commercial activity and public good for any specific product or service.</p> <p>Staff that pursue commercial and public good activities have clear policy frameworks regarding appropriate boundaries and relationship between the two.</p>
Conflict over use of .nz funds for new activities	<p>Clear establishment of mandate to take this approach.</p> <p>Clear and consistent communication across the group as to the limited scope of such resource use.</p>

Risk	Mitigation
<p>Conflict through entering new markets that sees InternetNZ competing with existing businesses (including, potentially, those of InternetNZ members).</p>	<p>Competitor conflict assessed in making business development decisions with regard to potential for public good, delivery of objects and competitor responses.</p> <p>Preference for novel or innovative business development that means that the competition introduced by us is good for the consumer.</p>
<p>Perceived incompatibility between .nz steward role and any new commercial activity</p>	<p>Principled case made consistently across the group for the desirability of securing InternetNZ's objects independent of its role as the .nz steward.</p> <p>Regular testing of this question with the local Internet community.</p> <p>Clear information regarding actions of other ccTLD stewards in this arena.</p>
<p>Perceived risk of loss of focus on .nz caused by diversification</p>	<p>Conduct new product and services development in commercial entities that are already commercial entities (i.e. so only in NZRS or a new subsidiary).</p> <p>Staff that pursue commercial and .nz activities have clear policy frameworks regarding appropriate boundaries.</p>