

# In business, how local is local?

By PKF Francis Aickin

Two weeks ago we explained the benefits to the local community of buying goods and services from local businesses. But what do we mean by local businesses?

It is often said that unless you have lived in the far north for at least 30 years you can not regard yourself as local. Even then you are just a newbie until you clock up 50 years. But a first-degree local business can make a substantial contribution to the local community from day one.

When we consider whether a business is locally-owned, we are interested not only in how well they serve the local community, but also in who the ultimate owners are and where the dollars they take in get spent or reinvested.

There are varying degrees of local. A 'first degree' local business sources product locally and is owned and operated by locals, so the majority of its income is spent locally. An example of this kind of business would be our local farmers and forestry contractors. The initial product is grown locally, the purchase of goods (fuel excepted) is done locally, and importantly, most of the other expenses and profits also stay within our community.

Service industry businesses, such as your friendly local accountancy firm, are another good example of this. The majority of our costs are wages paid to people living locally,

rent and computer support is all paid to local businesses, and the only significant expenses which leave the far north are electricity, training and subscription fees. So a dollar spent on a local accountant is a great investment for the community.

The next most local business, the second degree ones, will be those which are owned and operated locally but obtain their products from outside the far north. Again a lot of the expenses, especially wage costs, stay within the far north, and just the cost of the core product has to be sourced from further afield.

As well as your local retailers, another example of these types of business will be some of the franchises, such as Mitre 10, 100%, Subway and Pak 'n Save. So although these businesses buy products from all over New Zealand and internationally, and pay licence fees to the franchise holder, most of the other expenses stay local, as do the profits made by the local owner/operator.

The least local businesses, the third degree ones, are the local branches of national or international chains, such as The Warehouse, Farmers and Postie Plus, and contractors like Transfield and Toll. Labour is sourced locally, but most products are sourced centrally, and most profits go back into the central pot.

While these businesses do provide employment in the local community, the third degree local business actually competes with

first degree business. These national chains have considerable economies of scale which make it very difficult for smaller operators to compete on price. However, small local businesses can provide better service, and typically you deal with the business owner rather than a faceless head office or call centre.

It is also worth mentioning the businesses that are foreign-owned but still utilise local products and employment. For example, Juken NZ in Kaitaia will receive most of its income from overseas, but will spend a lot of this money locally growing timber, employing locals at the mill and using local haulage firms to take the finished product to the export port. Thus bringing money into the local economy which can then start recycling within our community.

As we discussed in our last article, the vast majority of businesses operating within our locality have a positive impact on our local economy and community, but some businesses result in higher financial benefits for the community. When deciding where to spend your hard-earned dollar, you may want to consider how much of that will remain within the far north.

We proposed in our last article that thinking people will always try to do business locally, and to that we'll now add that they will also factor into their buying decisions, who owns the business.

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