

**Service IQ**

SMARTER PEOPLE FOR  
SMARTER BUSINESSES

# SERVICE SECTOR WORKFORCE DEVELOPMENT PLAN





## Introduction

Economic growth and business prosperity are primarily driven by two things: the quality of capital and the skills of workers. As New Zealand and other developed countries have become knowledge-based economies, having a workforce with the right skills is more important than ever. In the 2012 Organisation for Economic Co-operation and Development (OECD) report “Better Skills, Better Jobs, Better Lives”, OECD Secretary-General Angel Gurría said:

“Skills have become the global currency of the 21st century. Without proper investment in skills, people languish on the margins of society, technological progress does not translate into economic growth, and countries can no longer compete in an increasingly knowledge-based global society. But this “currency” depreciates as the requirements of labour markets evolve and individuals lose the skills they do not use. Skills also do not automatically convert into jobs and growth.”

While this refers to countries, the same equally applies to sectors within a country. In New Zealand the service sector is competing with sectors like health, education, and many others for the best and brightest talent. And simply attracting these people isn't enough. Sectors have to ensure that these people are equipped with the right skills, maintain those skills, remain in the sector, and that their skills are used in the most effective way possible. At the same time, changes in the sector are leading to new career opportunities with accompanying greater skill needs. There is also a need for strong leadership and management to ensure skill development is keeping pace with skill needs.

It is well recognised that the education sector has a crucial role in ensuring people start with a core base of foundation skills and in ensuring relevant tertiary education is available. However, sectors need to have active input into content to make sure that education is relevant to individual businesses and to the service sector more broadly. Sound skill development requires a lead role from businesses, industry associations, and others with a key interest in the development of the service sector.

The service sector is crucial to the New Zealand economy, contributing 18% to Gross Domestic Product (GDP) and employing 563,000<sup>1</sup> people or 26% of all workers in New Zealand. The service sector grew faster than the New Zealand economy as a whole over the past 10 years and has the opportunity to continue to grow strongly over the next 5-10 years. To fully capitalise on possible growth, the sector needs to work together to ensure that workers have the right mix of skills and that these skills are put to good use.

This type of collaboration is unlikely to occur in a way that will drive economic growth without some sort of coordinated approach. The ServiceIQ Workforce Development Plan outlines a framework for various parts of the sector to work together toward a shared vision of ‘a world-class service industry through qualified people’. The plan highlights actions and strategies that key players can take to make the biggest difference in moving the sector towards this shared vision.

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<sup>1</sup> This figure differs from some quoted about the sector as it includes people working directly in service industries and also people working in core service occupations in other industries.

## Plan Context

This Workforce Development Plan is a key part of ServiceIQ's skills leadership work. It provides a way of capturing industry priorities identified through advisory groups and creating a robust framework for considering strategies and actions moving forward. ServiceIQ has two kinds of advisory groups:

1. Three **Industry Advisory Groups (IAGs)** which are made up of industry representatives from across the service sector. IAGs have a number of functions including providing input into service sector wide strategic workforce planning and informing the Ministry of Business, Innovation, and Employment (MBIE) and the ServiceIQ Board on workforce development matters.
2. Eleven **Sector Skills Advisory Groups (SSAGs)** which have a broad base of industry stakeholders and focus on the identification of skill supply and demand and the actions needed to meet the needs of each industry, looking forward over the next 18 months.

In 2013 these groups met for the first time. The SSAGs identified goals, strategies and actions from which common themes from across the SSAGs were then identified. The IAGs prioritised these themes into a small number of cross-sector priorities. This process was critical in gaining industry insight. This plan underpins the priorities identified by the IAGs and the strategies identified by the SSAGs with robust economic data, future trend analysis, and a more structured framework for considering skill need.

ServiceIQ envisages that in 2014 the IAGs and SSAGs will use this plan to ensure that the priorities and strategies chosen are the best ones to meet the needs of the sector. We also expect that this plan will be a living document and be updated on an annual basis.

ServiceIQ and its advisory groups are expected to take lead roles in driving actions and ensuring that progress is being made towards achieving the goals outlined in the Workforce Development Plan.

## Plan Content

This Workforce Development Plan aims to provide a guide for developing skills in the service sector over the next 5-10 years in a way that will put the sector, and individual businesses within it, in the best possible position to grow and prosper. The plan is divided into four sections:

1. **The wider context** – workforce development needs to be considered within the wider context of current government and economy-wide initiatives. This section outlines a small number of initiatives that could have a big impact on the service sector or tertiary education and training.
2. **What does the service sector look like now?** – to be able to plan for the future we need to have a sound understanding of the sector and its current workforce. This section examines recent trends and current data about a variety of aspects of the service sector and its workforce.
3. **What will shape the sector over the next 5-10 years?** - a number of emerging trends will impact on the sector in the medium term. We need to understand how businesses can better use skills to respond to these changes. This section examines key trends that are likely to have a big impact on skill needs.
4. **How can we best respond to these changes?** – this section takes the form of an action plan for developing the workforce to best position the service sector in the medium term. It identifies priorities for the sector and associated strategies for action for each priority.

## The wider context

This Workforce Development Plan needs to be considered in the context of wider skill and workforce development initiatives. Some of these are government-led and focus on the whole economy while others are more industry specific. This section briefly covers some of the work shaping the current environment for education and business. For this plan to be successful we need to align with these initiatives where relevant and make the most of the knowledge created by them.

### Business Growth Agenda

The Business Growth Agenda is a Government programme which aims to encourage business growth to increase standard of living. The Ministry of Business, Innovation, and Employment is leading this work and describes it as:

“The Business Growth Agenda is an ambitious programme of work that will support New Zealand businesses to grow, in order to create jobs and improve New Zealanders’ standard of living. The Business Growth Agenda is delivering innovative initiatives and policy reforms that will help create a more productive and competitive economy.”

There are six workstreams within the Business Growth Agenda, which are all seen as essential for businesses to grow. The workstream that most closely aligns with this plan is named Skilled and Safe Workplaces. Within this workstream there are seven programmes of work, all of which are well linked to workforce development. They are:

- lifting the achievement of young people
- delivering vocational education and training that lifts skills
- making workplaces safe
- attracting skilled migrants and investors
- strengthening tertiary education
- moving people off benefits and into work
- making the job market more responsive

### Better Public Service targets

One of the current Government’s areas of focus is delivering better public services within tight financial constraints. The government has identified ten key targets and two of these are particularly relevant to workforce development. They are:

- Target 5 – Increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification
- Target 6 - Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above)

Achieving these goals will have benefits for the service sector as more workers will have the higher level of skills businesses increasingly need. The sector also has an opportunity to work with government agencies and other stakeholders to ensure that these qualifications include the right mix of skills.

If the Government changes in the 2014 election, or in the next few years, these targets could potentially change but it is likely that the wider aim of raising educational achievement and qualification levels will remain a focus.

### **Tertiary Education Strategy 2014 – 2019**

The Tertiary Education Strategy 2014-19 (TES) sets out the Government’s long-term strategic direction for tertiary education. This strategy highlights the need to build international relationships that contribute to improved competitiveness, support business and innovation through development of relevant skills and research and improve outcomes for all. The strategy focuses on ensuring we have an outward-facing and engaged tertiary education system, with strong links to industry, community and the global economy. The first steps to achieving these shifts are outlined in the strategy’s six priorities:

- Priority 1: Delivering skills for industry,
- Priority 2: Getting at-risk young people into a career,
- Priority 3: Boosting achievement of Māori and Pasifika,
- Priority 4: Improving adult literacy and numeracy,
- Priority 5: Strengthening research-based institutions, and
- Priority 6: Growing international linkages.

The TEC’s Plan Guidance document for ITOs, which forms a key part of TEC’s investment in ServiceIQ, is strongly focused on meeting the first four TES priorities.

### **New Zealand Productivity Commission inquiry**

The New Zealand Productivity Commission is currently conducting an inquiry into boosting service sector productivity. The Productivity Commission describes the inquiry as:

“Given the size, breadth and significance of the sector, improving the productivity of services can have positive effects for the whole economy and for the wellbeing of New Zealanders. The Government has asked the Productivity Commission to investigate ways to lift the productivity of the services sector. The inquiry consists of two phases. The first phase produced a high level overview of the services sector, its characteristics and productivity performance. Building on these insights, the second phase is conducting in-depth assessments and developing policy recommendations for a small number of key issues or services areas that have the potential for the biggest productivity gains.”

The inquiry began in March 2013 and has subsequently produced an issues paper and two interim reports. The final report was sent to Ministers in April 2014 and will then be released in due course. The interim reports focus on two topics the inquiry believes are key to raising productivity in the sector:

- stimulating a more competitive environment
- the successful adoption of information and communications technology (ICT) by service firms

### **Tourism 2025**

The Tourism Industry Association New Zealand (TIA) has launched Tourism 2025 – Growing Value Together/Whakatipu Uara Ngatahi. This is a “framework to unite New Zealand’s large and diverse tourism industry”. TIA describes Tourism 2025 as a “shared vision and commitment to growing value by working together for the long-term benefit of New Zealand tourism and the wider economy. It is about the industry aligning for growth to improve our competitiveness.”

Skills and workforce development underpin a number of the strands of the Tourism 2025 framework. Linking the Workforce Development Plan and Tourism 2025 will help both projects be successful.

## What does the service sector look like now?

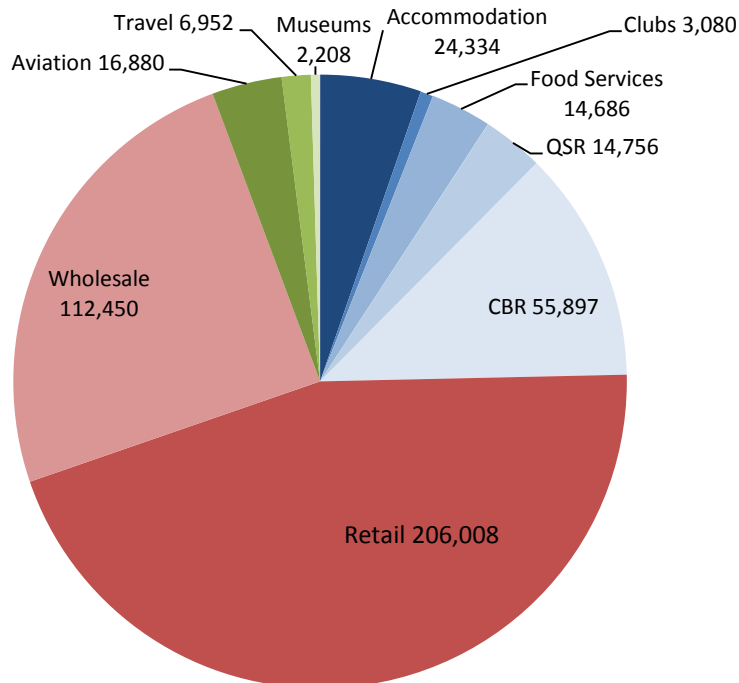
Understanding the current state of the service sector is critical when thinking about how to best develop it to meet future challenges. This section examines information about the service sector focusing on economic contribution, businesses, workers, the way work is structured, and skills and training. It paints a picture of the sector using data from 2012, or 2013 where available, while the next section looks to the future.

### Defining the service sector

The term ‘service sector’ can have a variety of meanings depending on context. In its widest usage, the service sector refers to all parts of the economy that produce intangible products and includes such wide-ranging sectors as financial services, health care, retail, and government services. This can be split in various ways including on who the primary customer is and who the primary funder is.

For the purposes of this report we define the service sector as including Retail, Wholesale, Museums, Travel, Tourism, Aviation, and Hospitality; with Hospitality further defined as Accommodation; Cafés, Bars & Restaurants (CBR); Food Services (catering); Quick Service Restaurants (QSR); and Clubs. These industries are similar in that they are largely funded by consumers rather than government and focus on providing services to individual customers. In total these sectors employ 563,000 people or 457,000 full time equivalent workers (FTEs) in just under 100,000 businesses and contribute almost \$36 billion to New Zealand GDP. The number of FTEs in each sub-sector<sup>2</sup> is shown in the figure below.

**Figure 1-FTE in each sub-sector in 2012**



<sup>2</sup> The Tourism sub-sector is a cross-section of industries that includes the parts of many other industries that cater for tourists. Therefore, to avoid double counting it cannot be added to other sub-sectors



# The service sector at a glance



## Service sector employment

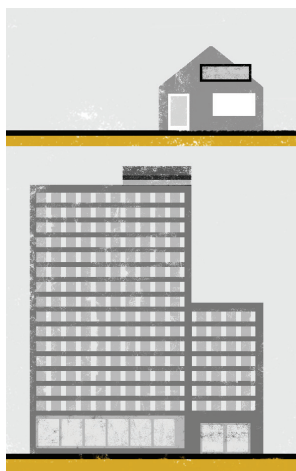
563,000 people  
26% of NZ workers



## Service sector GDP

\$36 billion  
18% of NZ GDP

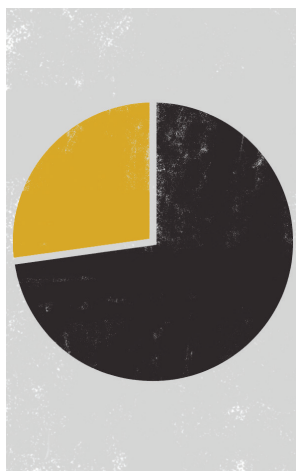
Increased by 2.6% pa  
from 2002–2012  
compared to 2.3%  
for NZ



## Businesses

Businesses with  
under 10 people  
88% of businesses  
32% of workers

Businesses with  
100+ people  
0.6% of businesses  
20% of workers



## GDP per FTE

Service sector:  
\$78,000

NZ:  
\$107,000



## Age

Service sector:  
23% 15–24 years old

NZ:  
14% 15–24 years old



## Ethnic groups

Asian: 16.3% –  
larger than NZ  
(11.1%)

Māori: 10.1% –  
smaller than NZ  
(11.2%)

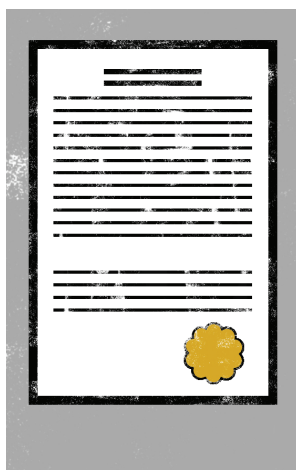
Pasifika: 5.0% –  
same as NZ



## Part-time workers

Service sector:  
27% part-time

NZ:  
21% part-time



## Qualifications

People with no  
qualifications

Service sector:  
54%

NZ:  
43%

## Economic contribution

The service sector, as defined in this report, contributed almost \$36 billion to New Zealand GDP in 2012. This represents about 18% of total GDP. Over the 10 years to 2012, service sector GDP grew by 2.6% per annum compared to economy-wide growth of 2.3% per annum.

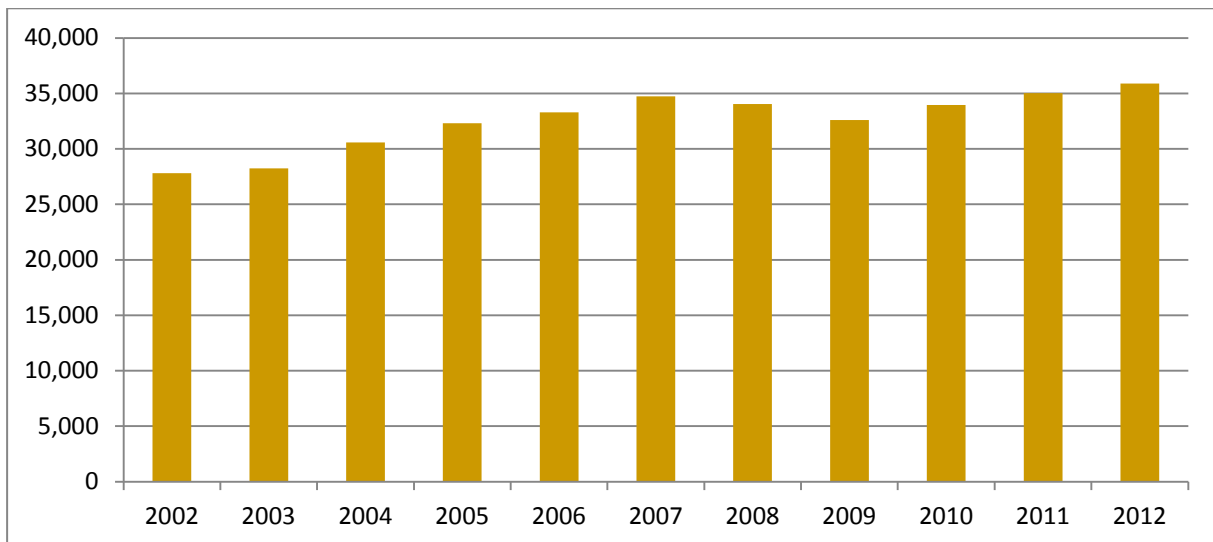
Labour productivity, or how much value each full-time worker is adding to the economy as a whole, can be estimated by calculating GDP per FTE. In theory, higher values of GDP per FTE should flow through into higher wages for workers, higher profits for companies, and increased prosperity for New Zealand.

In 2012 the average GDP per FTE across the whole New Zealand economy was \$106,871. In the service sector overall, GDP per FTE was \$78,473. This means that workers in the service sector were generating just under 75% of the contribution of the average New Zealand worker. There is, therefore, considerable scope for the service sector to actively develop its workforce to increase contribution to GDP. However, GDP per FTE varies considerably between parts of the service sector ranging from \$31,637 in Quick Service Restaurants to \$128,983 in Aviation. Table 1 shows GDP per FTE for each sub-sector in the service sector.

**Table 1- GDP per FTE by sector in 2012**

Sub-sector	GDP per FTE in 2012 (\$)
QSR	31,637
CBR	47,378
Accommodation	49,207
Clubs	51,128
Food Services	64,575
Travel	64,923
Tourism	71,119
Retail	77,855
<b>Service Sector</b>	<b>78,473</b>
Museums	97,782
Wholesale	102,999
<b>New Zealand</b>	<b>106,871</b>
Aviation	128,983

**Figure 2- Service sector real GDP (\$m)**



## Businesses

In 2013 there were just less than 100,000 businesses in the service sector. The majority of these businesses were small with 88% of businesses employing fewer than 10 staff. However, these businesses only employed 32% of people working in the sector. There are also some very large businesses in the sector, with 137 businesses that employ more than 100 staff. While these businesses only make up 0.6% of all businesses in the sector, they collectively employ just over 110,000 people or 20% of workers in the sector.

Business size varies considerably between the sub-sectors. Small businesses of less than 10 people employ a particularly large share of total workers in Travel (50%), Quick Service Restaurants (40%), and Retail (35%). Very large businesses of more than 100 people employ a larger than average share of people in Aviation (65%), Food Services (35%), Museums (33%) and Retail (24%).

The service sector is spread across all of New Zealand with each ServiceIQ sub-sector represented in all regions. Businesses and workers are particularly concentrated in the main centres with 38% of service sector employees working in Auckland, 13% in Canterbury, and 11% in Wellington. The regional split of workers varies in different sub-sectors with a few being particularly heavily concentrated in Auckland - Aviation (53%), Wholesale (50%), and Travel (45%) – and others being more evenly spread, namely Accommodation (58%) and Clubs (55%) of employment outside of the three main centres.

## Characteristics of workers

The service sector has historically relied on a considerable number of young workers. These workers are often attracted to the industry due to the prevalence of part-time roles which they can fit around other commitments, particularly study, as well as the relatively limited entry requirements for some roles. During the Global Financial Crisis the number of young workers in the sector fell as firms were less willing to take on new staff or took on older staff they perceived as being lower risk. Nevertheless, in 2013 23% of service sector workers were aged 15-24<sup>3</sup> compared to 14% of all workers in New Zealand. The share of young workers was particularly high in Quick Service Restaurants (44%) and Cafés, Bars & Restaurants (40%).

At the other end of the age spectrum, the service sector employs a smaller percentage of older workers than in New Zealand as a whole. In the service sector 29% of workers were aged 50 and over compared to 34% of workers in all New Zealand industries. Sub-sectors that had a high percentage of older workers were Clubs (38%), Accommodation (37%), and Museums (37%).

Ethnic diversity is increasing in the New Zealand workforce as a whole and this is mirrored in the service sector. The percentage of workers that identify as European has decreased while the share of workers in each of the Māori, Pasifika and Asian ethnic groups has been increasing. The service sector currently employs a significantly larger share of Asian workers than in all New Zealand industries, 16.3% compared to 11.1%, a similar share of Pasifika workers, with 5.0% in the service industry and 5.0% in New Zealand as a whole, but a smaller share of Māori workers, 10.1% compared to 11.2% across all of New Zealand. Sub-sectors that employ a larger than average share of workers in each of these groups are shown in Table 2 below.

**Table 2- sub-sectors with the highest proportion of Māori, Pasifika and Asian workers**

Māori		Pasifika		Asian	
Clubs	18.3%	Food Services	8.6%	QSR	44.1%
Food Services	13.1%	Aviation	7.3%	CBR	24.3%
CBR	12.1%	Wholesale	5.5%		

The service sector also employs a larger share of workers born overseas than the New Zealand workforce as a whole. In the service sector 32% of workers were born overseas, compared to 28% of all workers in New Zealand. The share of overseas born workers is especially high in Quick Service Restaurants (53%) while all other subsectors have a higher share of overseas-born workers than the New Zealand average, except for Museums (26%) and Clubs (23%).

<sup>3</sup> Although some workers aged under 15 years may be in the sector, information about these workers is not available

## Structure of work

People working in the service sector work in a wide range of roles. The 25 most common roles and the number of people who worked in those roles in 2012 are shown in the table below. Some of these roles, such as chef or travel consultant, are unique to the service sector while other roles are more general and found across the economy, such as chief executive or general clerk. The most common occupations also include a number of managerial roles. Over time, the proportion of managerial roles has increased in the service sector to meet changing business structures and skill needs.

**Table 3- 25 most common jobs in the service sector in 2012**

Sales Assistant (General)	95,996	General Clerk	7,405
Sales Representatives nec	58,024	Café Worker	7,029
Retail Manager (General)	36,372	Cook	6,710
Storeperson	20,139	Hotel or Motel Manager	6,628
Chef	17,669	Commercial Cleaner	5,931
Waiter	14,320	Bar Attendant	5,570
Kitchenhand	12,653	Hotel Service Manager	5,459
Checkout Operator	11,991	Office Manager	5,081
Café or Restaurant Manager	11,272	Barista	4,578
Chief Executive or Managing Director	10,417	Travel Consultant	4,292
Corporate General Manager	9,626	Shelf Filler	3,543
Sales	9,413	Retail Supervisor	3,347
Sales and Marketing Manager	7,967		

The nature of the service sector, with its long and often irregular business hours, has influenced the way work is structured. This in turn influences the options available to people in terms of hours they can work. The service sector has a relatively large percentage of workers working part-time (under 30 hours per week) with 27% of workers working part-time compared to 21% of New Zealand workers as a whole. Part-time work is particularly prevalent in Quick Service Restaurants (45%), Clubs (42%), and Cafés, Bars & Restaurants (38%). Similarly, the number of people working very long hours (50+ per week) is lower in the service sector with 15% of workers working very long hours compared to 19% of all New Zealand workers. The parts of the sector with higher than average numbers of people doing very long hours are Accommodation, Wholesale, and Travel, which all have 20% of people working 50 hours or more per week.

The types of roles in the service sector and the way that work is structured has also created a wide range of work arrangements with seasonal, casual, and temporary workers all being employed to varying degrees across the sector. These work arrangements present unique challenges in terms of developing the workforce.

## Skill levels and training

Compared to all New Zealand workers, the service sector has a relatively high proportion of people with no post-school qualification. In 2013 54% of people in the service sector had no post-school qualification compared to 43% of New Zealand workers as a whole. Some of this may be due to the prevalence of very young workers who have not yet had the opportunity to gain a qualification post-school. However, it presents both a challenge and an opportunity for the sector. It is a challenge because qualification levels are the best proxy for skill levels of the workforce and having a large number of workers with relatively low skill levels is a drain on business profitability and productivity. It does mean that there is considerable scope for raising the skill level of workers to increase productivity and encourage growth in the sector.

While there are a relatively high proportion of people with no post-school qualifications across the sector as a whole, there is considerable variation within the sector. The Museums (29%), Aviation (33%), and Travel (35%) sectors have considerably fewer people with no post-school qualifications while Quick Service Restaurants (67%) have a particularly high percentage of people with no post-school qualifications.

Alongside the current qualification levels of workers, it is useful to look at the proportions of people that are currently in work place-based training in relevant areas. In 2013, across the entire service sector, 21,640 people engaged in work place-based training arranged through ServiceIQ. This represents 3.8% of all employees. Some sub-sectors have a considerably higher share of people engaged in training, particularly Quick Service Restaurants (34.8%), Aviation (11.4%), and Travel (10.5%). The high proportion of people in training is particularly notable given the very high proportion of workers in that sector with no post-school qualifications.

The Government's Better Public Service targets aim to lift the proportion of young people with a qualification at Level 4 or above. In 2013 15% of ServiceIQ trainees were engaged in training at Level 4 or above. In some sub-sectors, training at Level 4 or above is the norm, especially Museums (79%), Aviation (72%), and Tourism (59%) while in others it is the exception- Clubs (2%), Retail (4%), and Quick Service Restaurants (7%). Most sub-sectors have recently completed the Targeted Review of Qualifications (TRoQ) process and we expect the proportion of trainees at Levels 4 and above to increase over the next few years as many popular qualifications have moved from Level 3 to Level 4.

**Table 4 – proportion of workers with no post-school qualification**

Museums	29%
Aviation	33%
Travel	35%
<b>New Zealand</b>	<b>43%</b>
Tourism	48%
Accommodation	50%
Food Services	51%
Wholesale	52%
<b>Service sector</b>	<b>54%</b>
Retail	56%
Clubs	57%
CBR	57%
QSR	67%

## What will shape the sector over the next 5-10 years?

The service sector needs to ensure that workers are well placed to work in the sector as it will be in the future. In this section we look at some of the major factors that are likely to shape the service sector over the next 5-10 years. Some of these factors are newly emerging and others are continuations of trends that have been occurring for some time. Considering the likely future state of the sector and planning for that will put the sector in the best possible position moving forward.

### Economic outlook

Economic growth in New Zealand is forecast to average 4.2% per annum (pa) over the two years to March 2016, as activity is supported by strong export incomes, rising construction activity, and healthy domestic confidence. Chinese and Australian economic growth rates are moderating, but demand for our primary exports will remain strong as household spending continues to grow in China. New Zealand's strong economic performance over the next 2-3 years will be accompanied by:

- higher net migration<sup>4</sup> – climbing above 30,000pa by mid-2014 and remaining over 20,000pa as we head into 2015
- good employment growth, driving the unemployment rate down to 5.0% by the end of 2015
- accelerating wage growth, lifting to 3.5%pa by March 2016
- rising interest rates, with the official cash rate reaching 5.0% by the beginning of 2016
- the return of inflation over 2%pa, due to the strengthening domestic economy, costs associated with the Christchurch rebuild, and a gradual lift in import prices.

Economic growth is forecast to peak at 4.4%pa in March 2015, with growth moderating over the following two years as the stimulus from high export incomes fades, rebuilding activity in Canterbury reaches its peak level, and growth in the housing market and domestic economy slow in response to the rise in interest rates that has taken place.

### Changing demographics of New Zealand

Our population is changing at a rapid pace. One area of considerable change is the ethnic makeup of New Zealanders. In 2001 77% of New Zealanders were European. In the 2013 Census this had fallen to 70% with 14.1% of people identifying as Māori, 7.6% as Pasifika and 11.3% as Asian. When we look at those aged under 15 the figures are even higher- 23.4% of people aged under 15 identify as Māori, 12.2% as Pasifika and 11.2% as Asian. Over the coming years this diversity will continue to increase and ours will be a much more multi-cultural society. This increasing diversity in New Zealand means that employers can no longer rely on hiring workers from the same background as themselves. Increasing ethnic diversity in the workplace has challenges but also presents an opportunity for businesses to draw on a much wider pool of talent and, importantly, better meet the needs of their changing customer base.

Another area of population change that will have a big impact is the aging population. In 2001 23% of people were aged under 15 and only 12% were aged over 65. By 2013 these figures had changed considerably with 20% of people aged under 15 and 14% aged over 65. The decrease in young people entering the workforce could have a significant impact for the service sector as traditionally the sector has

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<sup>4</sup> Net migration is the number of permanent and long term arrivals to New Zealand minus the number of permanent and long term departures from New Zealand.

relied on large numbers of young people to fill many roles. Estimates from BERL show that while the New Zealand population is projected to increase by more than 400,000 over the next ten years, the number of people aged 15-24 is projected to decline by 21,000. This means that not only will young people make up a smaller share of the workforce, there will also be fewer of them in absolute terms.

### **Increased competition for the best workers**

Even before the global financial crisis in 2007, there were skill and labour shortages in most parts of the New Zealand labour market. Demand for workers was very high, labour market participation had reached record highs and unemployment had reached record lows, meaning that there was significant competition for the best workers. During the global financial crisis these shortages eased in many sectors but did not completely disappear and have re-emerged as New Zealand has recovered. This means that the service sector, and all other sectors in New Zealand, is competing for the best of a small pool of available workers.

To address this, the service sector needs to actively work to attract people into the sector and to keep them for longer periods of time. The service sector has historically had a relatively high churn<sup>5</sup> of workers with many people working in the sector for a short amount of time before working in other sectors. Reducing this churn would retain skilled workers in the service sector, reduce the need for retraining, and ensure greater business continuity.

### **Māori economy**

The Māori asset base in New Zealand is significant and growing. In 2010 the Māori asset base was estimated to be close to \$40 billion; four times the amount it was in 2001. The challenge for the service sector is to think of innovative ways to engage with the Māori economy and to support Māori business development in a wide range of areas.

Currently, this asset base is concentrated in a small number of industries including Tourism. Māori have a significant stake in various parts of the Tourism industry including both general operations and Māori cultural experiences and historical sites. In addition, Māori culture is increasingly being incorporated into a range of tourist experiences, regardless of ownership. The Tourism New Zealand Visitor Experience Monitor found that, from 2008 – 2011, 40% of international visitors participated in an experience that had a focus on Māori culture.

### **Changing customers**

The service sector relies on customers for its livelihood. Who these customers are and what they expect is changing. Today's customers are increasingly diverse, reflecting both New Zealand's changing population and an increase in tourists from non-traditional markets, particularly from Asia. Customers are demanding better service, lower prices, increased use of technology, and personalised products and services. There is increased competition in many parts of the sector with the increase in online shopping, a wider range of tourist destinations and lower costs in other parts of the world, and easier access to information about a range of products and services.

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<sup>5</sup> Churn in this context refers to people working in the industry for a short period of time only, frequently moving between roles, and working in the industry on a seasonal or casual basis.

## **Technology and innovation**

Changing technology and innovation will continue to have a major impact on the service sector in the medium term; in terms of the technology that businesses have access to and how customers engage with the service sector.

Advances in technology have given businesses better access to their customers, reduced the number of people needed for some manual tasks such as stocktake, and enabled the sector to better meet the needs of a range of customers. However, rapidly evolving technology also demands staff with skills to use technology and adaptability to be able to respond to changes.

Technology, in particular the internet and social media, is also having a big impact on the way that customers are engaging with the service sector. Internet-savvy customers book flights online, let their friends on Facebook know of a bad meal at a restaurant, order groceries through on-line shopping, and look on user-generated travel websites for reviews before booking a hotel. This means that businesses need to adapt their business models to account for these behavioural changes, and make sure that customers get consistently high quality service that reflects well on the business. It also means that the mix of people working in the industry may change. For example, as retailers do more of their business online they may need more specialist managers and professionals but fewer shop assistants.

The New Zealand Productivity Commission has also identified innovation and information and communications technology (ICT) as being key drivers of potential productivity growth in the sector. In the Boosting Productivity in the Services Sector – first interim report, July 2013, the Commission identified that:

“Innovation – developing new products, making use of new products, or developing new processes or ways of doing something – is a vital way for New Zealand firms to lift productivity. This is as true for firms in the services sector as it is for those in the other sectors. ICTs are particularly important to boosting productivity in the services sector. The provision of many services is limited by the need for the provider to interact directly with customers. ICTs are making distance less important for the delivery of some of these services, allowing them to be more easily traded.”

## **Sustainability**

Sustainability has become a hot topic in recent years. Many savvy consumers consider how businesses care for the environment and their sustainability practices when making purchasing decisions. This has an impact on customer decision making across the service sector, from choosing airlines based on carbon footprints, to picking tourism operators that can promote New Zealand’s conservation efforts, and to selecting restaurants that can showcase local, organic produce. The sector is well placed to respond to this increased level of interest in environmental sustainability and can further capitalise on this trend by embedding sustainability in businesses across the sector.

## **Core, transferable skills**

There has been increasing recognition that in a modern labour market, workers in virtually all roles need both specialist skills and also more generic core skills. Core skills can be thought of as skills that could be applied to any job. This means they are transferable skills, and once developed, can be applied in varying degrees to most roles.



Core skills include Literacy, Language, and Numeracy (LLN), being able to use technology, customer service skills, and softer skills, like being able to work in a team and being able to self-manage.

From a business point of view workers with strong core skills are more productive as they can adapt more quickly, are more likely to innovate, and can undertake a wider range of tasks. Investing in education and training which focuses on core skills can have large impacts on firm profitability and productivity. In recent work by the Australian Department of Education, Employment and Workplace Relations (DEEWR), employers who have provided their workforce with LLN development opportunities reported the following benefits to their business:

- enhanced efficiency and workplace productivity;
- improved flexibility in adapting to technological change;
- enabled staff retention and progression;
- increased compliance with occupational health and safety standards; and
- improved staff confidence and teamwork.<sup>6</sup>

For workers, these skills are of increasing importance as rapid change means technical and specific demands of roles may evolve, making specific skills obsolete while core skills will remain relevant. Workers are also much more likely to have a number of different jobs during their working lives and strong core skills make these transitions considerably easier.

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<sup>6</sup>[www.deewr.gov.au/Skills/Programs/LitandNum/WorkplaceEnglishLanguageandLiteracy/training/Pages/case\\_studies.aspx](http://www.deewr.gov.au/Skills/Programs/LitandNum/WorkplaceEnglishLanguageandLiteracy/training/Pages/case_studies.aspx)

## What can we as a sector do to develop the workforce to best respond to these changes?

In 2013, the ServiceIQ Industry Advisory Groups (IAGs) endorsed five priorities for responding to the current challenges and the likely changes in the sector over the next 5-10 years. The priorities were identified as common themes from goals, strategies and actions developed in Sector Skills Advisory Group (SSAG) workshops. These five priorities were chosen as the IAGs felt they would have a significant impact on increasing business productivity and growth and were also realistic to achieve.

In addition, we have added in a sixth priority, about boosting productivity through developing core skills. This was added in to better reflect needs in the sector and to ensure that workforce development had skill development as a key component.

These six priorities are purposely high level and aspirational, and outline focus areas for the sector as a whole. The strategies for action present ways the sector could begin to achieve these priorities. Together these form a framework for achieving our vision of *A world class service industry through qualified people*. The framework is shown on the next page and is followed by a detailed description of each of the priorities.

However, this framework forms only the first part of the workforce development process as the priorities are unlikely to be realised without concrete, detailed actions undertaken by individuals, businesses, and associations. ServiceIQ's eleven sector skills advisory groups (SSAGs) will use this framework to construct strategies relevant to their part of the sector and actions which will help achieve the overall priorities and vision.

To further guide SSAGs in this process, ServiceIQ commissioned Infometrics in April 2014 to provide an independent analysis of 'workforce development opportunities' across each of the eleven sectors within ServiceIQ's gazetted coverage. The opportunities identified in the analysis provide a sector-specific focus and complement the more general workforce development framework.

A separate document titled 'An analysis of workforce development opportunities across the Service Sector' supplements this Workforce Development Plan. The IAGs and SSAGs will consider both documents in the ongoing prioritisation and implementation of workforce development activity across the service sector.

# Vision – A world class service industry through qualified people

## Priorities

Attract and retain people with the right attitude and aptitude

Increase the number of able school leavers transitioning into the sector

Increase access to and engagement with training

Develop and maintain high quality qualifications and programmes that meet the needs of industry

Increase productivity by developing core skills

Improve business and management capability

## Strategies for action

**1.1** Promote career opportunities and benefits of working in the sector

**1.2** Develop and promote career pathways

**1.3** Improve the understanding and perception of work and careers in the sector

**1.4** Engage with Māori, Pasifika and Asian communities on issues relating to participation, achievement and progression

**2.1** Raise the perception of careers in the sector with school leavers and families

**2.2** Ensure that the service sector vocational pathway meets industry needs

**2.3** Provide meaningful training programmes to school students through programmes such as Gateway and trades academies

**3.1** Promote the value of training to employers and employees

**3.2** Establish lifelong learning opportunities

**3.3** Develop delivery models that reflect the realities of workplaces in the sector

**3.4** Identify successful models of learning from the learner perspective

**3.5** Explore a range of delivery options including use of technology and on the job learning

**4.1** Improve engagement between industry and education system

**4.2** Implement qualifications and programmes that are flexible, targeted and relevant

**4.3** Work with schools, tertiary providers and industry associations, to ensure programmes include the right mix of skills

**4.4** Establish core sets of skills and transferable standards

**5.1** Identify the core skills needed for each role in the service sector and gaps that workers have in these areas

**5.2** Provide opportunities for targeted support for individuals with considerable skills gaps

**5.3** Establish support structures in workplaces that encourage whole of business foundation skill development

**6.1** Increase SME business management capability

**6.2** Upskill owners, managers and supervisors

**6.3** Make management training easier to access

**6.4** Create clear pathways for leadership development

## **Attract and retain people with the right attitude and aptitude**

With an increase in demand for workers and a decrease in the number of people in the key groups the service sector traditionally draws from, the sector is going to need to put effort into attracting the right people into the sector and keeping them. Getting the right people is important as people with strong core skills, a good work ethic, and a customer-focused attitude are needed to make the sector thrive. Attracting the right people involves raising the profile of the sector and convincing prospective workers of the desirability of the sector as a place for a career rather than just a job.

The sector may also need to look at different groups of potential workers, including the rapidly growing Māori and Pasifika populations. For these workers the sector needs to encourage participation, lift achievement in training, and increase the numbers of people progressing to higher levels of training and to more skilled jobs within the industry.

The sector also needs to keep people in the sector longer to maximise skill utilisation, generate a return on investment in training, and reduce the cost of turnover. This can be done by creating incentives for people to stay in the sector, developing career paths, and offering realistic progression opportunities. The sector should also examine ways to retain people within the sector, even if they do not stay in the same job. This would retain valuable skills in the sector and also give people a wider range of career path options. The sector could encourage this by training staff in some skills relevant to the sector as a whole, such as customer service, encouraging cross-sector linkages of associations and businesses, and promoting career paths that reach into different parts of the sector.

### **Key strategies for action:**

- 1.1 Promote career opportunities and benefits of working in the sector
- 1.2 Develop and promote career pathways
- 1.3 Improve the understanding and perception of work and careers in the sector
- 1.4 Engage with Māori, Pasifika, and Asian communities on issues relating to participation, achievement and progression

## **Increase the number of able school leavers transitioning into the sector**

For the service sector to thrive it needs bright young people seeing occupations within the sector as careers of choice. For this to occur there needs to be much better connections between schools and the workplace. Strengthening these connections helps enable smoother transitions, ensures young people are less likely to fall through the gaps, and gives employers a pool of workers with more relevant skills.

Over the past ten years a number of initiatives have been established including Gateway, Vocational Pathways, and Youth Guarantee, which all aim to help make the transition from school to further study or work much smoother. As part of these programmes, young people are able to develop skills while still at school that are much more relevant to employers including technical skills such as cookery and softer skills like customer service. This means that businesses that employ recent school leavers do not have to start from scratch in terms of training these young people. It also means that many young people have had a chance to partially experience what working in the sector is like and can make a decision about whether or not it is what they are interested in before starting a job or career.

For these programmes to be effective the service sector, and individual businesses within the sector, need to work with schools and tertiary providers to ensure that the skills they teach and the programmes they run are well aligned to businesses needs and give the students a realistic experience of what working in the sector might be like.

### **Key strategies for action:**

- 2.1 Raise the perception of careers in the sector with school students and their families
- 2.2 Ensure that the service sector vocational pathway meets industry needs
- 2.3 Provide meaningful training programmes to school students through programmes such as Gateway and trades academies

### **Increase access to and engagement with training**

One of the biggest issues limiting skill development in the sector is access to training. Workers can have difficulty accessing training for a number of reasons including limited access to training materials and resources, limited time for undertaking training, and lack of support from within the workplace for accessing training.

Some of these barriers can be overcome by changing employer attitudes and convincing them of the value of training for their staff. Other difficulties can be overcome by looking at modality of training including on-line delivery, and targeting training packages to best meet the realities of a modern workplace; for example, by developing short, 'bite-sized' training packages.

### **Key strategies for action:**

- 3.1 Promote the value of training to employers and employees
- 3.2 Establish lifelong learning opportunities
- 3.3 Develop delivery models that reflect the realities of workplaces in the sector
- 3.4 Identify successful models of learning from the learner perspective
- 3.5 Explore a range of delivery options including use of technology and on the job learning

### **Develop and maintain high quality qualifications and programmes that meet the needs of industry**

For businesses to have skilled workers that best meet their needs, they need access to high quality qualifications and programmes that are specifically tailored for the service industry. Education and training that does not meet industry's current or future needs is counterproductive as it wastes time and money for learners, and downgrades perceptions about the value of education and training within the sector.

Qualifications and programmes should meet industry need in terms of content, level of skill, context, and a range of other factors. For this to happen, the service sector as a whole needs to work with ServiceIQ, as the qualification developer, and education providers who are delivering programmes to make sure that programmes meet business need. The sector also needs to clearly articulate what skills and knowledge are most critical to business and ensure these are captured in training programmes.

### **Key strategies for action:**

- 4.1 Improve engagement between industry and education system
- 4.2 Implement qualifications and programmes that are flexible, targeted and relevant
- 4.3 Work with schools, tertiary providers, and industry associations to ensure programmes include the right mix of skills
- 4.4 Establish core sets of skills and transferable standards

### **Increase productivity by developing core skills**

The service sector has a significant opportunity to increase productivity and profitability by lifting the core skills of people employed in the sector. In Australia, the issue of core skills, or foundation skills as they refer to them, has gained such prominence that the Commonwealth Government developed a National Foundation Skills Strategy for Adults in 2012. This strategy was driven by concern from industry about the level of foundation skills in the workforce and the impact this had on bottom lines.

In this strategy they cite evidence from Skills Australia which finds “Employers can maximise returns to their business by providing a workplace environment where foundation skills development is valued and normalised. International research points to the benefits to business of doing so – a one per cent increase in literacy can lead to a 2.5 per cent increase in labour productivity, and there is evidence that stronger LLN skills in the workplace can lead to reduced downtime and reduced maintenance costs.”

Given the similarities between workplaces in Australia and New Zealand, it is likely that the benefits that could be gained by New Zealand businesses by developing foundation skills in their workers, particularly around LLN, would be considerable. In this context, businesses and sectors that take a lead in this area will have a real advantage and should see positive impacts on their business profitability.

### **Key strategies for action:**

- 5.1 Identify the core skills needed for each role in the service sector and gaps that workers have in these areas
- 5.2 Provide opportunities for targeted support for individuals with considerable skills gaps
- 5.3 Establish support structures in workplaces that encourage whole of business foundation skill development

## **Improve business and management capability**

Business capability and management skills are fundamental to the success of businesses and the service sector overall. High quality management can make a business profitable, enable businesses to make better use of resources, and contribute to long term business sustainability. A good manager can ensure that workers' skills are utilised and most effectively contribute to business objectives. In the context of limited supply of skilled workers, effective skill utilisation is becoming more important than ever.

The impact of good management on business was described in the 2013 New Zealand Management Capability Index report by Minister for Economic Development Steven Joyce. "Management capability is a critical success factor in every economy, and one that is often underplayed. Building management capability lifts organisational performance and productivity, and therefore economic performance across the economy as a whole."

Australian research has found that managers are often being employed without formal qualifications and with little professional development. This leads to significant skill gaps in key areas including financial management, leadership, and strategic thinking. Anecdotally, the situation is very similar in New Zealand and the results of these skill gaps were shown in the recent Management Matters research project.

The 2010 Management Matters research commissioned by the Ministry of Economic Development compared management practices in the New Zealand manufacturing sector with 16 other countries including Australia, the UK, the USA, China and India. While this study examined manufacturing, the results are indicative of New Zealand management practices as a whole. The research ranked New Zealand management practice 10<sup>th</sup> among the 17 countries considered. Of particular concern was people management, where New Zealand managers ranked 14<sup>th</sup> out of 17, and in some aspects of people management, ranked last.

There is significant opportunity in the service sector to increase profitability and growth through improving management and business capability. This can be achieved through tailoring programmes to better suit managers' needs, working with SMEs, and creating opportunities for promising people to receive training to become good managers.

### **Key strategies for action:**

- 6.1 Increase small and medium enterprise (SME) business management capability
- 6.2 Upskill owners, managers and supervisors
- 6.3 Make management training easier to access
- 6.4 Create clear pathways for leadership development









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