



Charles Stott

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Mr Stott is responsible for Landmark Rural Services, which includes procurement, merchandise, fertiliser, agency business and grain technology. Prior to this Mr Stott was responsible for strategy & business development, investments, mergers and acquisitions. Previously, he was General Manager, International Sales and Marketing. Mr Stott has worked with BHP Petroleum, where his positions included Project Director and International Business Development Manager. Prior to BHP, he was with the Australian Wheat Board and held various roles including marketing manager for the Middle East, Europe and Africa. Mr Stott has extensive international experience in trade finance, risk management, business development and project management across a broad range of industries including grain, petroleum and

minerals.

PROFITABILITY IN BUSINESS MANAGING CHANGE AND DIVERSITY

It is a great honour to be taking part in this major event, representing Landmark, the event partner.

On behalf of Landmark, I extend our welcome to you all, especially our international visitors.

The Hereford and Poll Hereford breeds have been part of the Landmark business ever since the company began servicing livestock producers in the 1800's through Dalgety & Company.

Our association has grown stronger over the years, both at a breed society level and also with individual stud and commercial Hereford and Poll Hereford breeders.

When the opportunity to be the major sponsorship partner for the 14th World Hereford Conference arose, we jumped at the chance.

While people in Australia are familiar with Landmark and our prior names of Wesfarmers Landmark, Wesfarmers Dalgety, Wesfarmers Rural (in WA) and Dalgety, our overseas visitors would not be as familiar with the company.

Let me give you a brief pen-picture:

- Landmark is one of the largest rural services businesses in Australia
 - It provides livestock, wool and real estate marketing services
 - It is also the largest distributor of farm inputs, like animal health products, agricultural chemicals, fertiliser, fencing and irrigation supplies
 - The company also provides finance and insurance, and agronomy services.
 - Landmark services around 100,000 farmer customers from a network of over 400 outlets, half of which are company-owned, the other half being franchises or agencies.
 - In August 2003, Landmark became a wholly-owned subsidiary of AWB Limited, a publicly-listed company owned substantially by Australian farmers.
 - Together, AWB and Landmark make up Australia's largest dedicated agribusiness, committed to the growth and development of all our major agricultural industries.
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My purpose today is to address the subject "Profitability in Business – Managing Change and Diversity".

I will draw on the experiences of both Landmark and AWB Limited to illustrate this topic.

The business environment has never been more challenging. Whether you operate in the international marketplace through a large publicly-listed company, or run a family cattle operation catering for the local beef market, the challenges are the same, including:

1. maintaining a profitable operation that makes a satisfactory return for the business owners;

2. planning for growth of the business and succession of leadership to take the business into the future; and
3. meeting the ever-increasing demands of customers, government regulators and other stakeholders.

I will deal with each of these in turn:

1. Making a satisfactory return

Every business needs to make a profit and provide a satisfactory return on the capital invested by the owners.

Many publicly-listed companies, like AWB Limited, disclose their target return on shareholders' funds. In AWB's case, the target is to make 15% on the funds invested by our shareholders.

This does not necessarily happen every year because of a range of external and internal factors. Last financial year, for example, AWB was impacted by the worst drought in 100 years, as many at this Conference would have also experienced. This obviously affected AWB's profit performance and return on funds.

However, to retain the support of institutional and private investors, a public company must be able to provide reassurance that it will get back on track and return to the objective of achieving its targeted rate of return.

This may mean sticking to the game plan that is already in place... or it may mean a more radical approach involving business restructuring to reduce the cost base, selling unprofitable parts of the business, forming joint ventures to improve business prospects or perhaps buying another business to build a bigger, more stable business.

Many successful beef producers operating private, family-based companies keep a close eye on the returns earned on the capital invested in their business.

Others argue that it is not the most appropriate measure for their financial and personal objectives.

However, it does provide a real focus on how assets including land value, are being utilised from year to year.

The rural services business – the business Landmark is in – is highly competitive and characterised by small margins particularly in the merchandise activity. Many have argued that it is difficult if not impossible to earn satisfactory returns in that business, compared to other sectors such as food retail or banking.

However, Landmark has adopted a number of strategies to ensure it meets hurdle rates of return. The obvious strategy is to lift the revenue and profitability line. But carefully managing capital is also a valuable strategy. For example, with over 250 company-run locations around Australia, does the company actually have to own the real estate? In most cases, the answer is in the negative. Now when we re-develop a Branch location, it is usually in partnership with a local investor, often a farmer client, who buys the land and constructs the building to specifications and in return, has a secure lease.

The outcome is a state-of-the-art facility from which Landmark can operate its business as a lessee, with better use being made of the capital that would have been invested in the real estate being used to expand and develop the business.

Land values for solid beef production country have escalated substantially in the last three or four years in Australia, reflecting the buoyancy of the industry. This is great news for established producers, but it makes the task of entering the industry or expanding existing holdings more difficult. The concept of leasing freehold country for cattle production rarely occurs in Australia, but if land values continue to escalate, we may see a higher level of demand which could be met by producers who are moving out of the industry leasing their properties rather than selling them in order to maintain ownership of the asset.

There is certainly a business argument for examining the concept.

2. Planning for Growth and Succession

There is an old adage that if you are not growing, you are actually going backwards.

That is certainly true in business today. The combined forces of rising costs and competitive pressures on the revenue line soon reduce a business that stands still to one that is whittling away its capital base and becoming less likely to survive in the longer term.

Strategies that focus on growth will keep a business moving forward and give it critical mass.

Growth can be generated 'organically' – that is, by developing and expanding the existing business.

Many good examples of organic growth can be seen in the beef cattle business, with stud breeders and commercial producers bringing about substantial improvement in their revenue streams by better utilising their existing properties and herds.

Improved genetics and a focus on higher levels of nutrition through improved pasture production or opportunity feed lotting are just some of the ways beef enterprises are growing organically.

A second strategy for growth is acquisition. For the commercial beef producer, this may mean investing in a new or additional property. For the stud breeder, it may be acquiring a complete stud from another breeder. For the commercial business, it usually means buying a competitor and capturing the synergies of combining head offices and back-office functions and systems.

A classic example of the benefits of growth through acquisition occurred when Landmark purchased a major competitor called IAMA Limited in February 2001.

IAMA was a large farm supplies business. It had a presence in the cotton industry which Landmark did not have. The company was known for the provision of technical advice through its national team of agronomists. When Landmark acquired IAMA, it was able to capture synergies amounting to millions of dollars through the merger of two head offices, the elimination of one computer system and the integration of the Landmark and IAMA Branches in country towns where both were represented.

Landmark at that point became the largest distributor of farm inputs in Australia, so was able to harness its purchasing power to buy competitively.

The agronomy teams were combined to become a very significant technical resource for company clients. Greater access to the cotton industry was also achieved.

The acquisition of IAMA created critical mass for Landmark and enabled it to increase its profitability.

Importantly, benefits also flowed to primary producers who were the customers of both companies.

Customers of IAMA were able to access all the other products that Landmark offered, including livestock marketing, finance, insurance and real estate services.

Landmark customers had a higher level of technical services for pasture and crop agronomy as well as access to a broader farm inputs product base.

Farmers were not disadvantaged by any lessening of competition following the acquisition. Competition in the farm inputs business in Australia is extreme with very low barriers to entry so it is not possible for even the large players like Landmark to establish a position where it dominates the market.

A further pressure in the agricultural chemical industry is commoditisation with the proliferation of generic chemicals. This has reduced prices to the farmer but also reduced margins for resellers.

Landmark's strategy of growth through acquisition has greatly enhanced its capacity to withstand the impact of these factors.

A third strategy for a business to achieve growth and enhance viability is through diversification.

Many Australian Hereford producers would have secondary enterprises or would contemplate adding a second enterprise when conditions in the beef industry get particularly tough. The second enterprise may be another agricultural pursuit like grain production, or may involve entry to a related activity like a farm-stay business. A more adventurous move would be into a vertically-integrated enterprise such as beef wholesaling.

The reasons for diversification are obvious and include:

- reducing exposure to a single product,
- generating additional income from a related enterprise which uses existing fixed assets or labour resources, and
- spreading risk.

The acquisition of the Landmark business from Wesfarmers by AWB Limited in August last year was a classic case of growth through diversification.

Up until that time, the AWB had a single focus on the grains industry with a particular responsibility for managing the single desk wheat export role on behalf of Australian wheat growers.

However, it also had a strategy to diversify its income stream and expand its involvement with other major agricultural products and industries.

The acquisition of Landmark has enabled AWB to achieve its diversification goal and provide a broader client base for both grain acquisition and as a market for its products, like finance.

It is our view that agribusinesses in Australia will continue to pursue opportunities for growth in each of the three ways I have mentioned:

- organic growth
- growth by acquisition, and
- growth through diversification.

Planning for succession of leadership in any business, large or small, is another crucial factor for managing change and growth.

In a large public company, this may be achieved through the identification of talented individuals and fostering them through a range of positions, coupled with appropriate off-the-job management education. A formal succession plan is usually put in place covering the top tiers of management.

These formal processes are not as appropriate in smaller, family-based enterprises which typify agriculture. However, the importance of planning succession in the farm business, whether it is a corporate or family-based structure, cannot be under-estimated. Equipping the future managers of our agricultural enterprises with the capacity and strategic planning processes that are necessary right now and which will be even more essential in the future, is critical.

The third issue challenging all businesses in today's environment is meeting the ever-increasing demands of customers, regulators and the community.

None of us can operate our businesses in isolation. Even if we own our own business – for example, the family farm – we cannot operate as we please.

Certainly if you are a public company, scrutiny by government regulators, the Stock Exchange, institutional shareholders and individual shareholders is to be expected. However, public companies are now expected to meet the so-called "triple bottom line" which takes in not only the economic value they add, but also the environmental and social value they add.

It has reached the point that public companies are now rated on their triple bottom line performance by a collection of groups from all sectors of society and the findings are published in major newspapers.

This has focussed companies on these three key areas of activity.

The pressures on individual agricultural enterprises, including beef producers, are not too different - although they take a different form.

The key issues facing the National Farmers' Federation and the State farmer bodies around Australia are now centred around environmental issues – dryland salinity, water allocation and usage, tree clearing, native vegetation protection, grazing of pastoral leases and so on.

Coming close behind are issues relating to the management and treatment of animals, with live exports a major current issue for the industry.

Food safety, including the use of hormonal growth promotants and antibiotics, and the associated need for a national animal identification scheme are also on the current agenda.

Very few of these issues were on the public agenda twenty years ago. Now they are firmly established.

Like all businesses, the beef industry can go into defensive mode and allow change to be imposed externally, or alternately use these issues as a driver of change and success in the industry.

The history of the Australian beef industry clearly shows that it is prepared to be pro-active and take the initiative when faced with major challenges. There is every reason to be confident that it will continue to do so.

Ladies and gentlemen, managing change and running a profitable business, particularly in agriculture, in today's environment, is extremely challenging. The essence of the message I have presented today is that:

- the focus in any business should be on making a satisfactory return on the capital invested
- Every business needs to have a clear growth strategy and a succession plan to ensure long-term survival; and
- Every business needs to address the changing demands of customers, regulators and the community in a positive and pro-active manner.

Landmark is proud to be working alongside the World Hereford Society in the presentation of this unique conference and we wish all participants every success in the achievement of their business and personal goals.