inperspective

INFORMING BUSINESS
ISSUE 3 2008

THINKING BIG

REGIS GROUP'S BOLD GROWTH STRATEGY

Plus

Tough times are no barrier to interest in M&As

Support group for lonely CEOs

Build value in your business with a simple, effective brand strategy

What private businesses are thinking

ANZ

WELCOME TO OUR OCTOBER EDITION OF INPERSPECTIVE.

This year has continued to be a challenging one. Despite this business sentiment across the private sector is still broadly positive, and even more optimistic for the 3 year outlook. This was just one of the findings in research commissioned by Fairfax and ANZ, examining the challenges and outlook for the private sector. Highlights of the research have been made available to our Corporate Banking clients. If you haven't received a copy, you can register for the paper at anz.com/brwawards. Some of the highlights of the survey are also featured on page 25 of InPerspective. Our senior economists echo the private business study sentiment, indicating that the business sector overall is sound (see page 17 for our economic review).

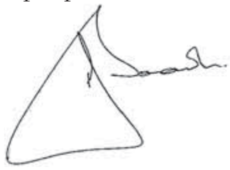
I am pleased to introduce Gary Newman, who has been appointed to the newly created role as Global Managing Director Relationship Banking, Institutional. Gary, who joins us from Citigroup, will oversee our mid-market and larger client relationship businesses – including Institutional Banking, Corporate Banking and Financial Institutions – with the primary objective of providing a dedicated senior-level focus on our client agenda and ensuring consistency across the businesses. We welcome Gary, who brings a wealth of experience and expertise to help us build an even stronger business to support the needs of our clients.

As you would be aware, ANZ Corporate Banking sponsors the BRW ANZ Private Business Awards to recognise the outstanding achievements of the private sector. I would like to congratulate the winners, finalists and all those who entered these Awards.

During the winners' acceptance speeches, at the Awards dinner on 27 August, I was inspired by their passionate accounts, trials and triumphs, of running successful businesses. A recurring theme articulated by the winners was: stay close to your customers, your market and your people. Their stories were featured in BRW's Top 500 Private Companies edition.

In this edition, our clients discuss the key issues on their agenda: including attracting and retaining staff, cash flow, growth, risk management and succession planning. We are especially grateful to Regis, The Executive Connection, AHS Hospitality, Seymour Whyte and Manildra for generously sharing their key issues and insights.

We hope you find reading this edition of InPerspective valuable. If you have any feedback on the magazine, please feel free to email your comments to inperspective@anz.com



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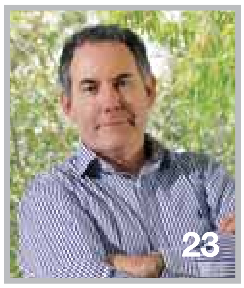

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SUPREME FLEXIBILITY:
AHS cleans up the competition

Ten years ago, an explosion at the Esso plant in Longford, Victoria, cut off the gas supply to the state's major laundries. It sparked an immediate crisis for AHS Hospitality, Australia's largest supplier of housekeeping services to the hotel industry.

WHEN HOTELS ARE NOT CLEANING SHEETS AND TOWELS, a provider like AHS can't make up the rooms and its revenue stops. "In a split second you're faced with no laundry, no linen, no work," explains Michelle Loader, AHS's Chief Operating Officer.

The problem caused by the cutting of gas supplies was more in the drying than washing. Some laundries tried to dry sheets on rooftops, but hotels handle hundreds of thousands of sheets and towels and can't do it piecemeal.

AHS held emergency discussions with major laundries and came up with a radical solution: they would put laden laundry trucks onto the Bass Strait ferry, *Spirit of Tasmania*, ship them overnight to Tasmania, do all the laundry in Devonport, reload the trucks, put them back on the *Spirit* and be back in Melbourne again within two days. It worked like clockwork.

"If customers are in trouble like this and you come up with flexible solutions, it's like you're going through a war with them," says Loader.

In fact AHS has a retention rate of around 96 per cent with its hotel clients for precisely this reason, adds AHS CEO Steve Tochner. "It's easy in this industry to end contracts with people you have no relationship with," he says. "With any kind of complaint or problem that comes up we handle it right and resolve it right. That creates trust and a moat that's hard for the competition to breach."

Even in uncertain times, turning economic challenges into opportunities to build still stronger relationships is the continuing key to expansion for AHS. And being flexible for it includes helping clients control *their* costs. The strategy has worked well. In only 14 years it has carried AHS to a commanding 70 per cent of the fast-growing outsourced hotel-cleaning market.

AHS employs more than 3,500 staff, responsible for the housekeeping requirements of more than 150 hotels and seven million rooms a year. The firm started in WA by father-and-son team Stan and Stephen Lauder in 1993 now has annual revenue approaching $100 million. Earlier this year, the senior management team, including CEO Tochner, CFO Richard Kiel and COO Michelle Loader, bought out the company with the help of ANZ. Stephen Lauder remains a shareholder.

TACKLING OPERATIONAL CHALLENGES

A focus on finding innovative solutions to problems has been in evidence in other areas of the business, like staffing. Maintaining a trained, motivated labour force is a huge operational challenge for a company with thousands of employees and which has to rely heavily on transient workers, particularly in remoter areas.

One of AHS's solutions to this is to cater to the needs of backpackers seeking work. "Say you work with us in Sydney and decide you're heading up to Queensland," explains Loader. "We have a system that means you don't need to be retrained; it allows you to be trained in the systems and procedures of the particular property you're at."

Nevertheless making sure quality of service is consistent regardless of local conditions is a challenge, not least because of the "mission critical" nature of housekeeping where a single dirty room can damage the image of a business. In Sydney, AHS has a number of what it calls "up and down" hotels – anything from 100 rooms through to 500, three-star through to five-star. Then in Far North Queensland it services many resort-style properties that require a different style of housekeeping.

It manages the problem by maintaining a strong permanent core of people in each region so even in highly transient places, like Darwin, it has seasoned staffers in each property. A firm base of permanent employees is crucial to consistent training as well as quality control, says Loader.

To help staff cope, AHS has developed a well-structured monitoring system – a 22-step program which they follow when servicing rooms. (The last step is to stop, put yourself in the customer's shoes and have a look around the room.)

WHY GOOD PEOPLE STAY

Recognition is important for all employees, Loader adds, and most firms acknowledge it, but it's particularly true for manual workers whose need for incentives is often overlooked in other companies.

The AHS recognition program hands out rewards ranging from a gift of chocolates through to a holiday depending on the contribution and results. It works so well it has helped the company retain many talented people who have grown through the ranks.

The same partnership approach to client relationships works for building enduring ties with employees. AHS's policy is to help staff whenever they approach management with a problem, whether it's personal, work-related or financial – and irrespective of what may be in their contracts.

"For the rest of their careers they'll say 'these people came through for me today, and I've got to come through for them tomorrow," says CEO Tochner.

DOWNTURN AN OPPORTUNITY

How does the company respond to uncertain economic times like the present? Again with the simple strategy of using it – along with all other challenges – as an opportunity. "The strong Australian dollar and doubts about tourism spend are not challenges for us," says Loader. "They're a brilliant opportunity for people to consider doing things differently. When you're

outsourcing it gives you the opportunity to alter your service overnight, allowing you to change a lot quicker than you ever could yourself."

Ironically one challenge AHS faces arises from its success: a lack of strong competition. They respond by challenging themselves. Not only by targeting increasing market share, but by working to grow the outsourced hotel cleaning market as a whole. Because it's the market dominator, the company's leaders believe they must stretch themselves rather than have others do it. (AHS benchmark themselves against the inhouse systems of all the major hotel brands.)

"We want people who've never wanted to outsource see this as a chance to work smarter and save money," says Loader. "Because we're constantly fighting to be cutting edge that's a challenge for us in itself."

LISTEN AND LEARN

For Michelle Loader and Steve Tochner, both of whom have hotel industry backgrounds, the AHS journey has been fascinating and instructive. "My motto is never stop listening and learning," Loader says. "Never think you know, always question and move with changes. A mistake is only a bad mistake the second time you make it. The first time is an opportunity to grow."

Meanwhile the CEO is buoyant about the future. It will include short-term consolidation, further development of systems and infrastructure, organic growth, mid-term acquisition and potential diversification into other streams followed by, possibly, long-term international expansion.

The catalyst for all this will be ongoing strong partnerships and relationships, Tochner says.

"After all it's very hard, very hard, to end contracts with your friends."

AHS's keys to success:

- Be truly flexible in helping clients and employees. This pays dividends in future loyalty and trust.
- Look at any economic or logistical crisis as an opportunity to partner with clients to help them weather the storm. This builds lasting, loyal relationships that will make it difficult for competitors to elbow their way in.
- Creative and radical thinking can turn what seems to be a handicap – like a transient workforce – into a real marketplace advantage.
- Reward and recognise outstanding work, not forgetting manual workers who need motivation as much – if not more – than other employees.
- If your success reduces serious competition, keep the company on the cutting edge by setting truly challenging targets.

A STRONG BRAND COULD BE THE SINGLE MOST IMPORTANT GOAL FOR LEADERS OF PRIVATE COMPANIES SEEKING A GENUINELY USEFUL STRATEGY FOR GROWTH.

But if it's not practical, understandable and quickly and easily implemented, a brand strategy won't work – on any level.

Even today, when executives of private companies think about branding, too many consider that it's mainly the concern of global giants like Nike and Toyota or that it's an arcane, mysterious science, according to consultant Graeme Gladman.

In fact, good branding can be achieved by taking logical, practical steps, and it impacts every aspect of an organisation, he says. As founder of BrandQuest, a leading Australian marketing consultancy, he speaks with authority. He has been creative director of a number of iconic brands ranging from Grace Bros/Myers through to Katies Fashions, BP and Mazda.

The benefits of improved branding are many and obvious. The most obvious, says Gladman, is that it makes a company more effective by building sales leads. It's also an effective way for leaders to get everyone in a company clear on strategy: exactly where they want their organisation to go and what they want to achieve. When well executed, it makes the organisation more efficient, reducing marketing costs versus sales.

To develop and strengthen a brand, all organisations – from companies in every industry sector and even not-for-profits, educational institutions and government departments – can benefit from developing a clear marketing roadmap, says Gladman. In this process there are two essential steps:

1: Identify the organisation's strengths. Understand where your company has been and where it plans to go. If you don't have a clear direction and focus internally, Gladman says, how can you communicate it externally? "You'd be surprised how many organisations we talk to where one executive's idea of their competitive advantage differs completely from another's, and this includes CEOs and other board members."

The first step is to have all major stakeholders participate in this identification process, and it needs to be driven from the top down. Indeed no marketing strategy can be created without the insights these stakeholders bring to these workshops.

As Gladman explains it, you need the kind of focus and direction that everyone in the organisation instinctively “gets”. So whether you’re on the top floor or in a carpark working bay, you understand the prime purpose of the organisation and what its aims are. (At BrandQuest opening workshops, facilitators seek answers to six questions – see box).

2: Ensure a consistent message. A big failing Gladman and his colleagues encounter in companies is inconsistency of message, tonality and application of branding devices like logos and taglines (the latter being “incredibly important”).

“We come across a number of companies who say what their tagline is, but have something different in their brochures, and something else again on their website because they believe that’s what they need for the online environment.”

For smaller to medium-sized companies the tagline that goes with a logo is vital. Powerful brands like Nike or Apple can get away with not using taglines, but when you’re a company with an acronym for a name, for example, your name and tagline must jointly explain to people who you are and what you do.

To help ensure consistency every organisation needs a strict set of guidelines in a “brand book,” says Gladman, giving guidance on such matters as the application of brand colours, the logo and how not to corrupt it, and precisely how stationery and marketing literature should be developed. Otherwise people with the best of intent will modify a key ingredient because they feel it works better for a particular job.

“...companies with high brand values have consistently higher [company] values than those of their competitors. With many baby boomers thinking about retirement, this can be vital for private businesses.”
Graeme Gladman

“When you’ve got 20 people moving a message by one degree you’re suddenly 20 degrees off course.” He extends the yachting analogy: “As a sailor you only have to be one degree off course for a couple of days until you find yourself heading for the Southern Ocean.”

NOT JUST ABOUT ADVERTISING

In many smaller, high-growth companies and organisations, Gladman finds that marketing is misunderstood. He still encounters people who think it’s either “sponsoring the races or advertising”. He tells them to think of marketing as a symphony orchestra with advertising as, say, the percussion section.

It’s easy to ignore marketing for a number of years in a company’s growth phase, he says. “Look at successfully branded companies like Qantas and Westfield that are dynamic marketers,” he adds. “They all started as small businesses, but it’s not good enough any more just to have a great product and service and great staff.”

Branding revitalises a business. A company that’s grown steadily for 30 years and whose owners are looking to get a good reward from it may be strong and profitable, but does it seem relevant and contemporary to prospective buyers? Often a long-established company can come across as stale and tired. A new, sophisticated brand strategy will not only improve staff morale and increase sales, it will spruce up the firm’s image, making it more appealing to buyers who want to build on the past but hope to take it to the next level.

“Fresh branding can be like a company metamorphosis,” says Gladman. “Like a cocoon recreating itself as a butterfly.”

BRANDING BUILDS VALUE

Most importantly, however, it raises a company’s value. Recent research by Harvard Business School shows that companies with high brand values have consistently higher values than those of their competitors. With many baby boomers thinking about retirement, this can be vital for private businesses.

“People will be wary of buying *Graeme Gladman Accounting* knowing that Graeme Gladman is about to leave,” Gladman explains. “But if I build a brand around that business called *Excel Accounting Services* then I can exit stage left, remain a consultant to important clients while the newcomers who bought the business can retain a consistent public image.”

BIG BUDGETS UNNECESSARY

Large consultancies can take 12 months to produce a marketing strategy at a cost of six figures. But branding need not be a long and expensive process, even in complex, sophisticated organisations. The quicker the process the better, Gladman says. Aiming for speed has two benefits: rapid implementation in a fast-changing market and a reasonable price. “Imagine if somebody was doing a marketing strategy in the mortgage category and started last November and it was not due for completion until this November – need I say more?”

Companies that enjoy most success in their branding efforts are usually agile, don’t procrastinate and want to get to where they’re going faster than their competitors. And the principles of successful branding apply across the board. When he started his company Gladman believed its core market would come from manufacturing and retail, but he was surprised by the number of professional services firms it became involved with.

He concludes: “So it’s not about size of companies, it’s about the mindset of people who manage or own them. They need to understand the importance of getting the basics right, and to achieve their vision quickly.”

www.brandquest.com.au

QUESTIONS THAT SET BRAND DIRECTION

- What do you need to say?
- Who do you need to say it to?
- What makes you different from competitors? *Every* company is different, and this differentiation is a key communication point for a marketing strategy.
- *Why* you can claim to do what you do. (Why you can “walk the talk”.)
- How do you to say it for best effect?
- When do you say it for maximum impact?

One day in 1991, an assignment for a suburban accounting practice led Bryan Dorman to a depressingly cramped aged care facility in Footscray, Melbourne.

Bryan Dorman, CEO and Joint Executive Chairman (left) and Ian Roberts, Joint Executive Chairman

THINKING BIG

Regis group's bold growth strategy

EVERYWHERE HE LOOKED, ELDERLY RESIDENTS IN 16-BED wards were eating their meals in their beds or in bedside chairs. Dorman had been called in to help the people who ran the home manage their business affairs. "I wouldn't use the word squalor," he recalls, "but residents were living in second-world conditions in a first-world country." The experience affected him deeply. Later it would change the lives of thousands of ageing Australians, because Dorman had another objective in addition to positioning the Footscray facility on the right business path. A degree including an extensive review of Australian demographics had made him acutely aware of Australia's ageing population. Plus he'd been advising aged care operators for several years. Now he was looking around for investment opportunities in the industry.

Dorman set two targets. He aspired firstly to improve the lives of old people. To succeed with this ambition he knew he had to be successful with his second, which was to create, own and operate quality aged care facilities and services that improved the lifestyles of the aged *and* were profitable.

Soon he and his partner – Queensland-based property developer Ian Roberts – invested in two small private residences for the elderly in Mildura and Frankston. The learning curve for their company, Regis, was steep. "I was effectively the office, systems and management, taking care of the payroll, debtors and creditors, risk and exposure," says Dorman, now CEO of the group and joint Executive Chairman with Roberts. "But we set out to build an organisation with the capacity to grow to some size over 20 to 30 years."

That has certainly happened. Having started with 105 beds, Regis now offers 3,700 beds in 37 locations in Victoria, New South Wales, Queensland, South Australia and Western Australia. A $300-million, 1,500-bed development program will raise that to 4,500 in 42 sites within four years. The group employs more than 3,500 people. Of 1,500 aged care providers across the nation, Regis is in the top five in size and value, which Deloitte recently assessed at around $450 million.

SUCCESS FORMULA

At the heart of Regis' success has been the creation of an industry-leading brand. From the outset Dorman, Roberts and their colleagues decided to build a company that provided a "premium" residential service with a high-calibre management team. They wanted it to encompass low and high care, dementia, respite and extra-services care and promote and improve the quality of life of residents in an environment that fostered a sense of belonging, respect and dignity.

They have done all that and more. Regis' residences today offer registered nurses and other qualified staff, 24-hour emergency systems, air-conditioned lounges and recreational areas, lifestyle programs, quality decor and fittings, on-site laundries, varied meals, active family and friends programs and landscaped outdoor areas.

WATERSHED YEAR

A major catalyst for growth came in 1997, a vital year for the aged care industry which had been labouring under antiquated laws. The Aged Care Act of 1997 provided government per-bed funding based on means-tested resident classifications and a broadening of the bond environment so more residents could pay bonds. This allowed operators to generate cash for new buildings and better facilities which they hadn't been able to do in the past.

Regis stepped up its acquisitions and expansion. After ten years of growth the next milestone came in July last year when it merged with the Macquarie Capital Alliance Group-owned Retirement Care Australia (RCA). That union added 19 aged care facilities across the country to the 18-strong Regis portfolio of residences in Victoria and Queensland.

The opportunity and timing were ideal for both parties. Macquarie wanted a top-flight aged care player to integrate and operate its RCA stable. Regis was drawn by Macquarie's institutional and financial muscle which would help it realise its expansion ambitions.

DAUNTING OBSTACLES

Looking back, Dorman realises the industry is now "streets ahead" of where it was. "Those feelings I had about 16-bed wards where people were being fed in their beds and waiting to die are a thing of the past."

Still, fresh challenges loom. Bureau of Statistics figures show that in 2004 people aged 65 years and over made up 13 per cent (2.6 million) of Australia's population. This will double to 26 to 28 per cent (7-9 million) by 2051.

Aged care providers have long argued the government should spend two to three times more on the sector, citing new Australian Institute of Health and Welfare figures that show it gives hospitals $1,117 per patient per day while aged care residents are funded at the rate of just $96 a day.

The Government's own data shows 40 per cent of residential aged care providers are operating in the red and all sectors of the industry are trending downwards, according to Rod Young, CEO of Aged Care Association Australia, which represents private care providers.

As in many other industries, staffing presents special problems. Regulations require operators and their specialist staff to be well qualified, highly developed in their quality assurance for resident care and at worlds best standards. Yet, frustratingly, the level of government funding precludes it from matching wages in the broader health sector. At the same time labour costs swallow up to 70 per cent of revenue.

"We're restricted in paying our people as well as we'd like," Dorman says, "so the aged care industry is seldom the first port of call for work health professionals."

Regis is tackling the issue head on. Although setting in place training systems in a highly regulated environment isn't easy, it nevertheless sends staff on regular development programs to improve skills and management procedures, and provides them with incentives. To help manage the chronic shortage of skilled people, the company recruits and advertises overseas.

"We've always tried to ensure we have a culture of personal development and what we call a relationship-based, not systems-based, organisation"
Bryan Dorman

"We've always tried to ensure we have a culture of personal development and what we call a relationship-based, not systems-based, organisation," adds Dorman.

Another challenge for Regis is to deliver quality care and financial returns against a backdrop of spiralling costs. To build a nursing home in Perth last year, it cost $140,000, Roberts observes. Now it's around $240,000 a bed.

The answer to this, Regis believes, is for the government to clear the way for the industry to boost revenue and extend user-pays systems to attract a greater mix of residents. It must find a mechanism whereby residents or pensioners are protected with a minimum level of care, but where those who want to pay for extra services are accommodated. "So if someone wants an extra glass of wine or a bigger room, the choice is there," says Roberts. "The government must recognise they're controlling an industry that, unless it meets challenges, will go into stress mode."

READY FOR THE FUTURE

Industry conditions have hardened and the heat will likely intensify on the Labour Government to restructure aged care regulations in this way to help providers survive. But no matter what happens Regis' leaders believe that if they continue to deliver the best facilities and service they'll prosper.

"Then if or when a universal user-pays system comes in, we'll be ready," says Roberts. "We enjoy occupancies above the industry average and have good assets and cashflow. We'll continue to make sure we comply with regulations to ensure as many beds as possible are occupied."

HEALTHY PARTNERSHIPS

One of the industry's strengths is that it's not burdened by debtors or stock, which is why it steadfastly attracts capital. Regis gets good assistance from main banker ANZ, Dorman adds, which has provided merger debt finance and funding for the development portfolio.

Since the merger last year, Macquarie has proved to be a good partner, too, because its strategic goals and objectives are aligned with Regis's, Dorman says. At an operational level the Regis board sets most of the business management strategies while Macquarie provides business and intellectual support.

In addition to Dorman and Roberts, there is other strong talent on the Regis board. It includes Operations Director Lindsay Bender, Finance Director Ray Noble and Property Director Dieter Blaich, an architect with more than two decades' experience in the design of aged care facilities.

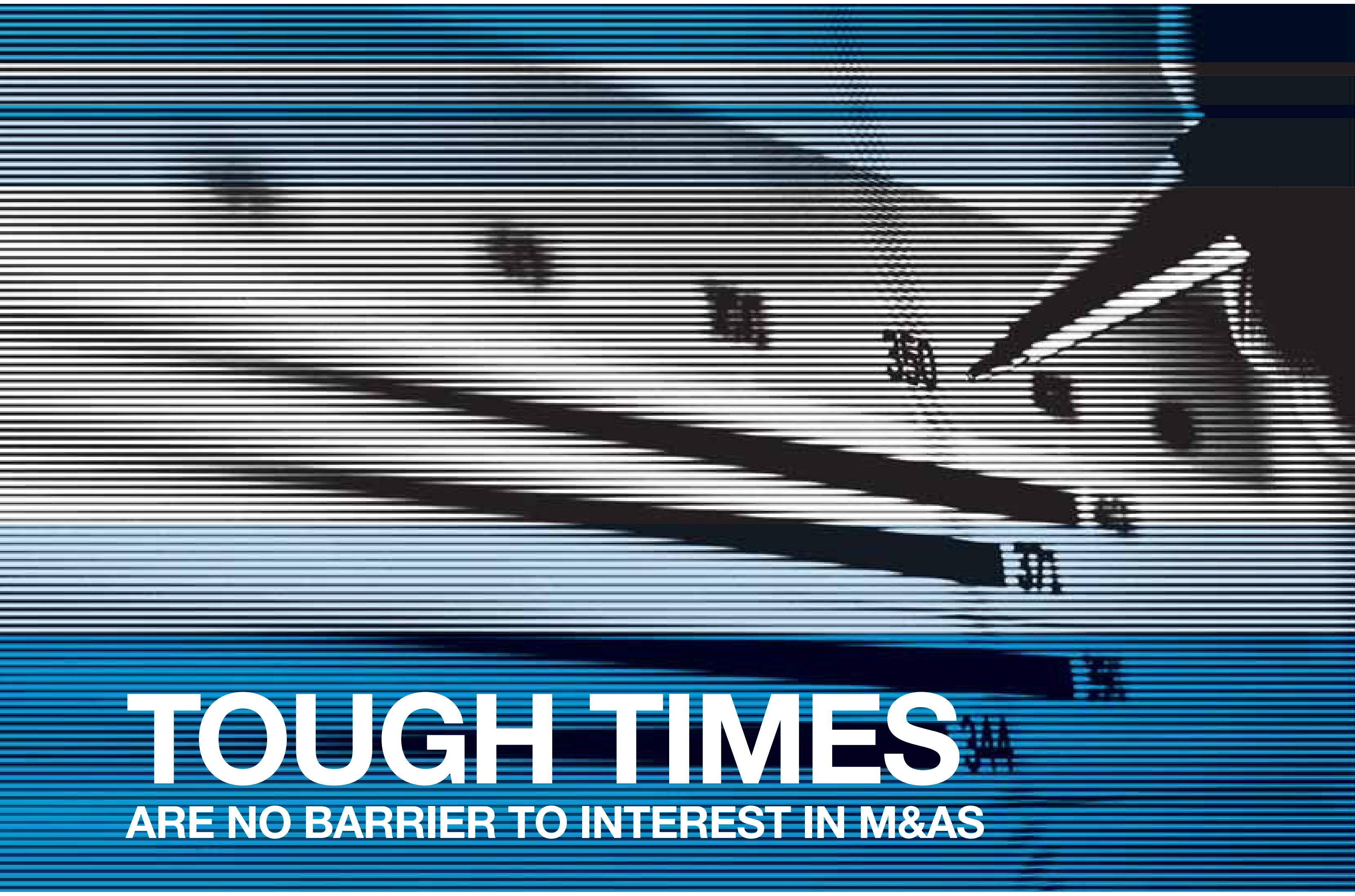
But Dorman and Roberts place a high premium on all their people – the leadership group as well as their highly regarded nursing and care staff. "We've been fortunate to have wonderful people around us," Roberts says. "We couldn't have done it without them."

Their best advice? Those who are starting or expanding a business must assess the risks, then allocate more resources to each of those risk areas than they might immediately think are necessary. "Above all," Dorman advises, "over-resource your management expertise."

But what makes the founders most happy is to have contented and fulfilled residents who are still engaged with the world around them – and not eating their meals in bed.

The Regis group continues to grow in one of Australia's most regulated industries by:

- Sticking to carefully planned growth strategies
- Providing the best possible product and service
- Concentrating on staff training and development
- Strong recruiting strategies domestically and abroad
- Building a strong management team. ■



TOUGH TIMES

ARE NO BARRIER TO INTEREST IN M&AS

HAS THERE BEEN A SLOWDOWN IN M&A ACTIVITY AND IS IT GOING TO ACCELERATE?

Many company leaders are now asking this question, according to John Allerton, Head of M&A for Ernst & Young in Australia. In particular they want to know if the rise and rise of private equity is stalling now there is less capital available to borrow and investors can't fund assets with the high gearing they've become accustomed to.

For those wanting to sell, Allerton has good news. Deals may be taking longer to finalise because banks are taking longer to assess credit and buyers are taking longer to finalise their pricing. But interest in mergers and acquisitions in Australian companies is as high as ever.

Bruce Nettleton, ANZ's Global Head of Mergers and Acquisitions, agrees. "There's every bit of the competition there once was for assets but lower availability of debt has slowed deal flow," Nettleton says. "So we expect the 12 months ahead to be a little slower for new deal activity."

It's not so much a cooling economy that's prompting owners to sell all or part of their companies, Ernst & Young's Allerton points out. In many baby-boomer-owned businesses owners are realising that having all the family's wealth tied up in one company is now an unacceptably high risk. "Private equity has created a huge opportunity for those people to take some money off the table but still keep a major stake in their business," Allerton explains.

For buyers with available cash, a slowing economy brings more opportunities for strategic acquisitions but of course has its own perils.

Private equity investors have two prime concerns, Bruce Nettleton says. One is the operating performance of the businesses they want to acquire and what impact any downturn may have on them – of particular concern if they have high existing gearing levels. The other issue is to ensure they are buying at the right point of the economic and financial markets.

> **"Private equity has created a huge opportunity for those people to take some money off the table but still keep a major stake in their business."**
> John Allerton

Usually, even if buyers are not highly leveraged, the early part of the post-acquisition phase is when financial gearing is highest and they are most vulnerable to the cycle. "It really requires extra effort in due diligence," Nettleton says, "because the cycle may deteriorate on you very early after the acquisition."

So should would-be sellers wait for better conditions? If they have no urgency to sell, Nettleton suggests waiting for some months to see if interest rates come down further and the cycle (hopefully) firms up, so "doomsayers" aren't reflecting that in any price for the business.

FINDING THE RIGHT PARTNERS

If vendors do decide to sell an interest in the company as soon as possible, what's the best way to go about

finding the right partner? Acknowledging there might be a perception of self-interest in his comments, John Allerton nevertheless strongly recommends talking to an organisation like Ernst & Young. It can make sure sellers are presented with a series of good quality potential buyers so their needs can be matched.

"Best of all we can make sure that when we make a recommendation to a client we're advising on selling their business that it is a genuine partnership and alignment of personalities," he says.

IT'S NOT JUST ABOUT PRICE

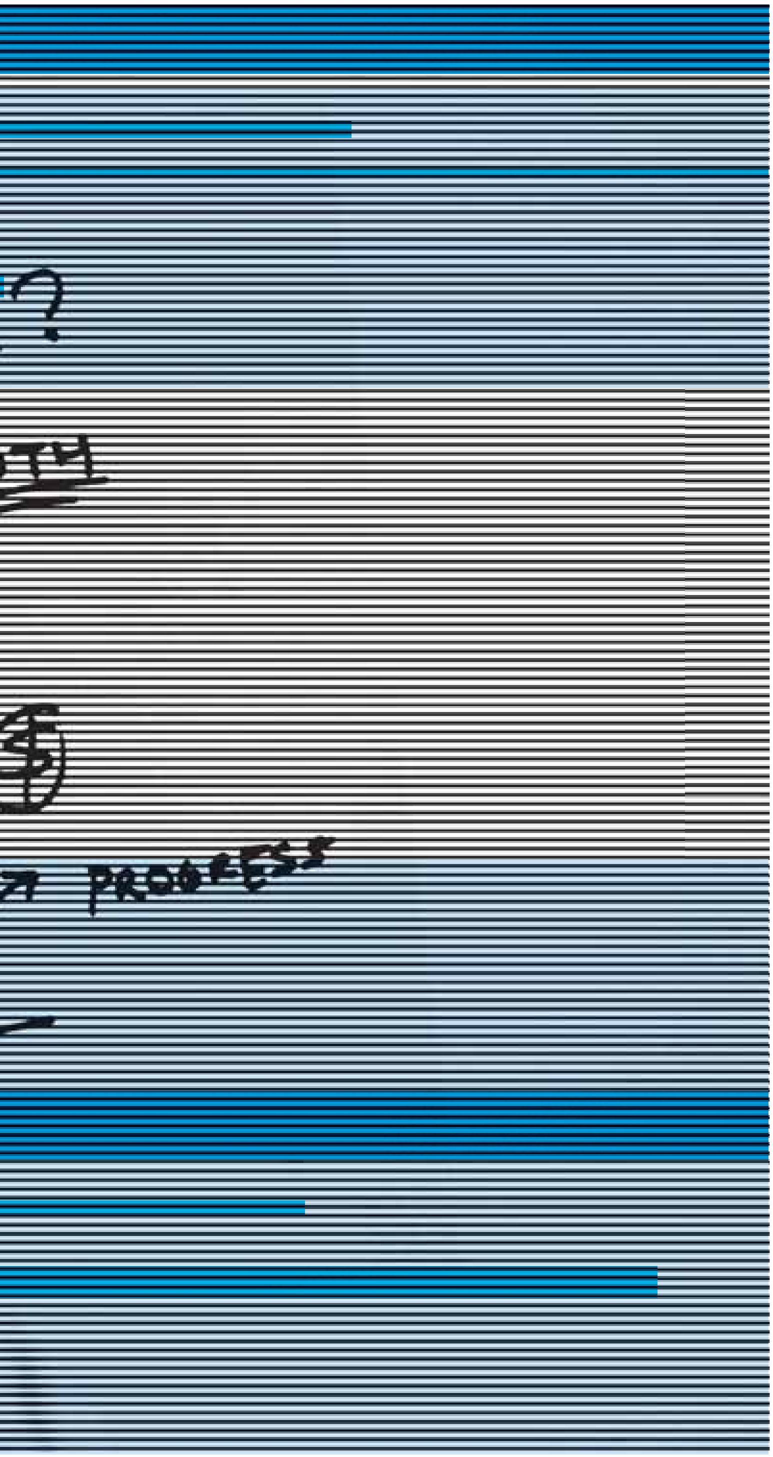
The decision on who the winning bidder should be is seldom based entirely on price. Softer issues often matter more. For example private company owners who have built a successful business all their lives will be reluctant to sell to someone they may suspect will wreck the business within a few years, and would prefer it to be in safe hands.

"We and all such advisers need to be very sensitive to this, and sit down with the owners and work out what their plans are," says Allerton. "We must also ensure the financial systems of the business are in good shape."

INFORMATION MEMORANDUM

Typically, advisers then pull altogether an information memorandum for the sellers that is reliable, defensible and designed to give enough information for potential buyers to put down an expression of interest that includes price – to show if they are serious about the money.

Next, says Allerton, if there are enough interested parties, they are short listed and subject to a formal process of due diligence. The buyers and their representatives look at financial records, meet the management, get to understand the business better and put their bids in. Then the terms of the sale and shareholder agreement are negotiated.



This is a critically important part of the process. If the vendor is the patriarch, the shareholder relationship between the patriarch and new owners needs to be set down at the outset, along with the terms of the relationship. "Some issues will require a majority vote to protect the minority and majority interests," says Allerton. "You decide all these things up front so there will be no arguments down the track."

When selling a business, Allerton's aim is to get plenty of people interested and wanting to buy. However he is mindful that potential buyers incur significant costs and professional fees in doing the due diligence. If they don't win the bidding process they have nothing to show for it, and most can't afford to participate in too many unsuccessful processes.

KEYS TO THE TRANSACTION

The way in which companies come together is very much an unknown at the start of a merger or acquisition process, yet it's usually the issue that determines success or failure.

If the acquisition is a service business in which the intellectual capital walks out of the building every day, then the people are key to that transaction. If it's a property trust with a ten-year lease to, say, BHP, the people may be a less critical factor. "Buyers must ensure they fit the people into the culture of their organisation and still provide incentive for them to perform at the level they were performing," says Nettleton, "which is the reason you bought the business in the first place."

So how can buyers ensure they retain essential people? As a first step at Ernst &Young, Allerton and his colleagues ensure there are incentive programs, not just for the owner but for the coming-through management.

"With private companies you've invariably got a cadre of senior management who have created a lot of money yet have only one or two per cent of the business," Allerton says. "What private equity can do is make sure those guys get wound in for the next time it gets turned over."

Sometimes, he says, owners have in place a CEO who is the life and soul of the business. The owners have already taken a step back and there is a new gun in charge who has been in the business for, say, ten years and knows it backwards. It is crucial that such vital people are incentivised by the new owners to continue to drive the business, and get equity.

Finally, a truism in the M&A business is that when you're buying or selling anything it only matters what the price is on the day you buy and the day you sell. Anything that happens in between is immaterial. Irrespective of short-term turbulence in financial markets, if you buy well and look after the investment you've made everything will work out in the long term.

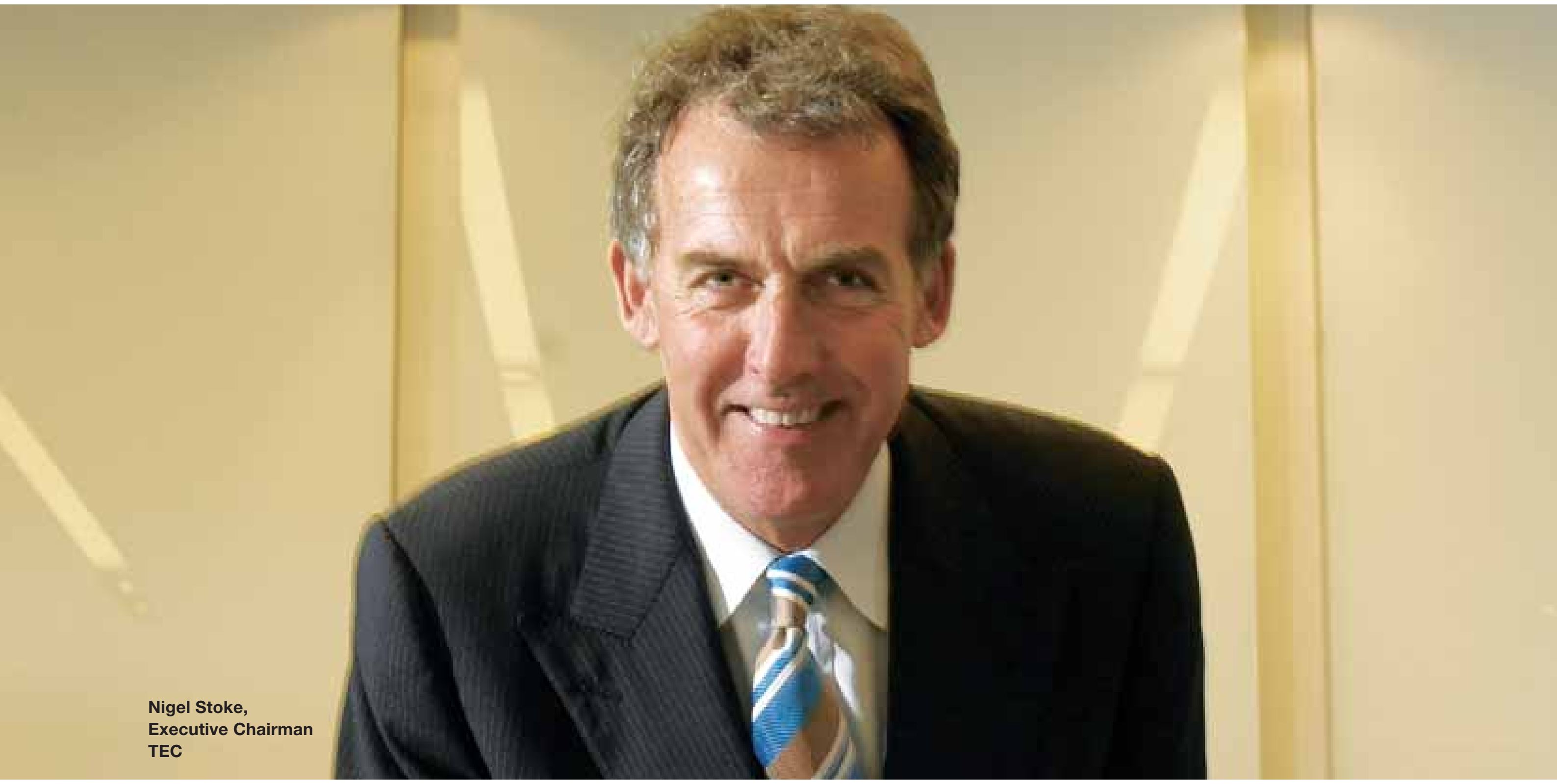
ANZ has many years' experience in providing strategic advice and financial services for mergers and acquisitions, including public company takeovers, mergers and asset sales in Australia, New Zealand, Southeast Asia, India and the UK. For more information please contact Bruce Nettleton on 612 9226 6915 or email Bruce.Nettleton@anz.com.

M&A – KEY CONSIDERATIONS

1. "When you sell a private business, realise the new owners want to know that the core management team, customer relationships and goodwill of the business actually still reside in it. If you want to divest a business for a good price, this is essential." – Bruce Nettleton, ANZ.
2. "Remember private equity people are mainly interested in the figures, the right kind of assets, a good price tag and cashflow, good strong management, nice barriers to entry and strong market position." – John Allerton, Ernst & Young.

SUPPORT GROUP FOR LONELY CEOS

How TEC helps executive clients to stay happy, focused and successful



Nigel Stoke, Executive Chairman TEC

For more than two years, Bernie Hollaway and his colleagues at Melbourne-based BJH Controls worked "feverishly" to win an order to supply a customer with a control system for a furnace to be shipped to Brazil.

FINALLY, EARLIER THIS YEAR THEY GOT THE NEWS they'd been hoping for – a $480,000-plus order, the biggest the automation-solutions business had ever won.

"It takes us to a new level, with customers entrusting us with projects of this size," enthuses Hollaway, BJH Managing Director. "But I place a lot of credit for this development on the ongoing advice and encouragement I've received from our TEC group over the last two years."

Hollaway is among over 14,000 executives worldwide and 1,200 in Australia and New Zealand who use their membership in TEC (The Executive Connection) to give them a genuine edge.

Founded over 50 years ago in Wisconsin, USA, The Executive Connection has a simple charter – to provide leadership development for CEOs. It started in Sydney in the mid-80s and now has close to 100 groups operating in Australia and New Zealand.

PRACTICAL MODEL

Practical arrangements are as simple as the charter. Each group consists of 15 chief executives and is chaired by a chairman (the "TEC chair"), who operates as an independent contractor. The "chairs" are mostly ex-CEOs or executives themselves and are supported by a national Sydney-based office with a staff of 20.

Each CEO member must attend a monthly full-day group meeting. In the morning, a guest speaker runs an interactive workshop on a subject of current interest. In the afternoon members are encouraged to share a topic of concern in "an executive discussion" with everyone at the table. Each then also attends a monthly one-on-one (coaching/mentoring) session with the TEC chair on another day.

PRICELESS PERSPECTIVE

The benefits are manifold, says the organisation's local Executive Chairman Nigel Stoke. CEOs collaborating in this way gain priceless perspective because they get to test their ideas with peers. And because good ideas are always generated, analysed and applied, they end up making better decisions and achieving better results.

The expertise available to members from The Executive Connection network transcends borders. Chairs glean best practices from colleagues round the world and share successes and mistakes, new management ideas and technologies assisted by a global web database.

'LONELY AT THE TOP'

Perhaps best of all, Stoke says, the supportive peer group helps combat the big problem of executive isolation, allowing members to "discuss the undiscussable" in confidence. There are rigid rules about confidentiality between members and their chairs, who may not enter into business relationships with members of their group. No member in a group may be in competition with another.

One TEC member who enjoys the collegial interaction is Paul Barnett, Chief Executive Officer of Mingara Recreation Club on the New South Wales Central Coast.

"It can be lonely at the top," Barnett says. "TEC . . . provides the opportunity for CEOs to share problems, bounce ideas and receive constructive, sometimes difficult-to-swallow advice. I'm a better CEO because of my TEC group and our business is better for it as well."

MEMBERSHIP BY INVITATION ONLY

To help maintain standards of excellence, membership is by invitation and happens only after an interview with a TEC chair. As a result, members tend to see themselves as being part of something special – "a kind of club to some," says Stoke.

This was partly the motivation of TEC founder Robert Nurse. Around 30 years ago he sold the rights to other American states and the rest of the world. The organisation, now headquartered in San Diego, continued to grow.

QUEST FOR RELEVANCE

There are other, particular challenges in running this kind of organisation. One is to stay always relevant and provide value. TEC's leadership manages this by engaging the best-possible resources and by selecting outstanding TEC chairs from the business community. The chairs undergo an "exhaustive" process of selection as well as a development training program, says Stoke.

Another major challenge is finding topics of consistent relevance for the speaker program. That means understanding what's going on in the globe in an economic and political sense, explains Stoke. "Right now a powerful theme in what we're doing is to challenge members and chairs to have a conversation around economic uncertainty, and the opportunities that can arise from it."

Membership grows mainly through referrals and, increasingly, web-based marketing efforts augmented by PR and modest advertising. Strategic planning is managed via a rolling five-year business plan, reviewed formally by the board each year and then on as an-needed basis if, say, there are significant changes in the economic environment. Directors are equity partners.

"I'm a better CEO because of my TEC group and our business is better for it as well."
Paul Barnett

NEW MARKETS

Geographic expansion is yet another challenge that relies on the involvement of outstanding people. When the board decided to expand the organisation into WA five years ago, for example, they hired a well-known former chief executive, Bernie Eastman, as the inaugural chair in Perth. He provided such a great experience for the first group of members that referrals soon flowed.

A vibrant TEC community in Perth now has seven chairs running 12 groups with 150 members. More recently, new TEC groups have opened in Auckland, Wellington and Christchurch.

Realising future success depends on innovation, the board has other opportunities squarely in its sights. The TEC Roundtable concept, for example, was designed to meet the needs of smaller business owners and is enjoying success in Queensland.

TRUST TRUMPS GROWTH AT ANY COST

TEC's leaders see the organisation continuing to grow but, interestingly, not at any cost. "We see it as more important to be relevant," says Craig Purcell, TEC's General Manager Operations and Administration. "We've learned that growth focused on the mission, meeting the needs and maintaining the trust of our members is the best way to build long-term success."

One member whose trust has never wavered is Chairman Nigel Stoke himself. A TEC member for almost 20 years, he ran several manufacturing businesses in Australia. In the process of selling the largest a few years ago his TEC peers and chair helped him to get the company ready for sale, *and* through the actual negotiation process. When he was invited to sit on the organisation's board and become a partner he seized the chance.

In August and September this year, ANZ (which TEC views as a key partner) sponsored and supported a special program for members. Richard Olivier, son of the celebrated British actor Sir Lawrence, used Shakespeare as a theme and inspiration in a series of addresses on "courageous leadership" to 1,500 CEO members.

It aimed to provoke fresh thinking and workable ideas around a challenging subject – the kind of service The Executive Connection delivers consistently well, year after year.

CEO networking and support group The Executive Connection (TEC) has enjoyed steady global growth by:

- Providing advice, support and perspective to members and allowing them to test ideas with peers
- Combating executive isolation while maintaining confidentiality
- Maintaining excellence through careful screening of members, "chairs" and speakers
- Managing strategic planning via a rolling five-year plan
- Staying relevant and developing new offers
- A focus on service rather than revenue-raising at any cost.

AVOIDING FAMILY BUSINESS BUST-UPS

WHY A PROFESSIONAL APPROACH CAN MAKE THE DIFFERENCE BETWEEN SUCCESS OR FAILURE

Robert Manifold died in 1973, leaving his two sons a grand inheritance. The family's west Victorian estate, the result of land grants in 1838 to Robert's father and uncles, occupies some of the richest pasture land in Australia.

The sons, both in their twenties, were left the estate to share equally, but for a year couldn't agree how to divide the property. They ended up tossing a coin to decide. The winner, Ed, took the homestead *Wiridgil* while older brother Robert received a larger portion of land as compensation.

Their story unfolded in unexpected ways. Flagging wool prices and death duties saw Ed struggle to make a profit while his brother had better results with more acreage. The 30-room *Wiridgil* has become a struggle to maintain. Ed now leases the bulk of his land and takes tour groups through the house.

"Our gift is also our curse," said Ed's son Harley recently. Harley will not continue the family's business. Robert continues to farm his adjacent property and the brothers have little to do with one another.

Sooner or later every family business looks beyond the immediate *what* and *why* to *how* they do business. As the Manifolds discovered, questions like ownership and succession can determine success or failure. Only around 30 per cent of businesses make it to the second generation, according to worldwide figures cited by the NSW Business Chamber. Why do so many unravel?

"Often they don't know what they don't know," explains Philippa Taylor, Chief Executive Officer of Family Business Australia. "It's not until problems arise they realise if they'd had a more professional structure their problems would be less serious."

Taylor points to Melbourne's Dennis family as a textbook study in good governance. Begun in 1960, the Dennis Family Corporation is the largest private residential land development company in Victoria. Bert Dennis started the business by designing and then developing land for residential use on Melbourne's outskirts. As the company grew, so did its complexity.

The family realised they needed to professionalise the business. One of their first steps was to appoint external members to the board. Another was to identify gaps in the skillsets of the business and recruit externally to address them. The impact was apparent almost overnight. Immediate benefits included clarity in the roles of the family and the rest of the management team.

AVOID EMOTIONAL SOLUTIONS

Don Schwerzler is an Atlanta, US, based pioneer in developing success strategies for family businesses. He sums up the challenge this way: "In non-family businesses you tend to have rational problems and rational solutions. In family businesses you tend to have rational problems and emotional solutions."

A family business will have the usual support team of professionals advising it: their banker, lawyer and accountant. But they are often frustrated because decisions are made not necessarily in terms of what's best for the business but what might be the best for the family or a family member, says Schwerzler. "This frustrates the professionals who are trained to think logically."

FAMILY FIRST OR BUSINESS FIRST?

The first question worth asking, says Schwerzler is: are we a family first business or business first family? How this is defined will have a strong impact on the intricacies of formalisation, succession and other issues downstream.

A FAMILY COUNCIL

To help decide, Philippa Taylor recommends forming a family council. A formal board should address strategic business issues but a family council is a means to review issues that impact the family, she says. Handling family investments, appointments and members' development within the business are subjects that might be addressed by the council. They decide if, for example, a family member's son can take a year's sabbatical for study.

Uncertainty – around wills for instance – can quickly create conflict. Schwerzler recommends creating a family plan and mission statement that is separate from the business plan and mission statement as an effective way to manage conflict.

"The family plan might say the elderly founder doesn't draw a wage but wants to remain active in the family charitable foundation, or the sister doesn't work in the business but wants a dividend."

"It's not until problems arise they realise if they'd had a more professional structure their problems wouldn't have occurred or they'd be less serious."
Philippa Taylor

The whole family needs to be involved in creating this plan, not just one enthusiast, Schwerzler adds. After defining the family's needs, they then inform the business planning along with growth targets and the other, usual strategic aims.

IDENTIFY PRIMARY OBJECTIVES

As part of the professionalising process, a family company should start with three primary objectives, Schwerzler suggests. These might be to grow the business, to increase profits and maintain healthy family relationships. Efforts to professionalise the business then need to address each objective.

THE RIGHT INFRASTRUCTURE

A common problem in family businesses can be an overly informal management style which is not always appropriate as a business grows. Addressing this can be a straightforward matter of introducing appropriate infrastructure such as business plans, job descriptions, employee handbooks, manager handbooks, operation manuals and documentation of computer systems.

CONNECTED SOLUTIONS

Another typical challenge is disconnected solutions. A family business may have good accountants, lawyers, bankers and consultants but never bring the advisers together. The risk: to end up with a series of solutions to problems that don't work well or are not cost effective. Implementing a number of unconnected pieces of advice can be costly – for example a financial system that doesn't link to purchasing or forecasting.

"To help manage this issue hire a business consultant with family business experience," advises Schwerzler. "They need to be smart about business and family dynamics. An accountant is good at tax and but unlikely to know how to deal with two feuding brothers. A family therapist may be good at dealing with feuding brothers but have no notion of a balance sheet."

BE SALE-READY

Philippa Taylor urges family businesses to be sale-ready even if they don't have immediate plans to sell. Professional structures like job descriptions and KPIs make the valuation process easier and increase the likelihood of the owners realising full value.

As part of this, she warns, it's important for family members to undergo the same processes as non-family employees. In many family businesses it's common for non-family employees to have job descriptions, performance reviews and other professional structures but for family members to sit outside of those structures. This can impact morale.

Finally, says Don Schwerzler, family businesses should consider having an independent advisory function. This can be a person who is not part of the formal board and who offers advice only. He or she can meet informally and infrequently with the owners, but must be objective.

"It should be someone who'll act as an ombudsman and a sounding mechanism for the owners on issues such as the competency of their children. Such honesty is truly valuable."

DON SCHWERZLER'S TEN TIPS FOR A MORE PROFESSIONAL FAMILY BUSINESS

1. Differentiate family issues from business issues. Ask: are you a family first business or a business first family?
2. Explain business functions and strategies to family members who are stakeholders in the business but who don't work in it.
3. Formalise business functions and controls – establishing better processes for the entire management team.
4. Encourage personal growth and development.
5. Set up a formal recruiting process for your advisors and board of directors.
6. Develop agendas for family business retreats.
7. Gain a better understanding of the strengths and weaknesses of your organisation.
8. Set goals and action plans that will ensure the survivability of the business.
9. When preparing to do a business valuation, learn and seek advice about factors that would increase or enhance the value of your company.
10. During new employee orientations, explain how family values impact the decision making process in the company.

www.family-business-experts.com

AUSTRALIA REMAINS A CENTRE OF RELATIVE CALM IN GLOBAL FINANCIAL STORM

The global financial crisis rolls on, over a year after it began in July 2007. This crisis began in the US, but has now spread to engulf most of the developed world. Global asset markets remain volatile. Prices in key asset markets are now falling, including shares, commodities, and, in some countries, prices of houses and commercial property. Some big name financial houses have failed. Governments in some countries are now using public money to take equity stakes in failing institutions – effectively nationalising them – or to assume some of the risks which are crippling financial flows. And economic growth has slowed sharply in most developed countries, with the US, UK and Europe either already in recession or heading that way. We have not seen a global financial crisis of this magnitude or duration in our lifetime.

Amidst this chaos Australia has remained a centre of relative calm. It needs to be stressed that the problems from which this crisis stemmed have nothing to do with Australia. Australian banks have little direct exposure to the financial losses which have crippled many overseas institutions. Our banks remain tightly regulated, well capitalised, profitable, and are able to access required sources of funding from both onshore and offshore markets. Banks remain able and willing to lend to creditworthy borrowers. The four major banks in Australia are rated AA, among the highest rating of any banks globally. Only 20 other banks in the world have a rating equal to or higher than the four major Australian banks (S & P Global Bank Ratings).

Nevertheless, Australia is part of a global financial system, and so has not been able to completely escape some of the impacts of global events. Our asset markets have been significantly buffeted, with share prices (ASX 200) down around 40% from the early November peak. Commercial and residential property markets now look to have stalled. Prices of many commodities relevant to Australia are heading lower, including base metals and coal and iron ore. The terms of trade boost to the Australian economy will begin to unwind in 2009. And market interest rates have risen sharply relative to the risk-free rates as lenders have sought to compensate for increased uncertainty.

Economic momentum in Australia has been slowing for 18 months. In the June quarter 2008 GDP increased at a trend annualised rate of just under 2%, about one third of the pace in the March quarter 2007. This slowing has not been an accidental response to slowing global growth or the shakeout in the global financial system. Rather, it has been a cooling deliberately engineered by the Reserve Bank of Australia, through progressive increases in interest rates, in order to dampen uncomfortably high price pressures.

The slowdown has not been even across all sectors of the economy. The primary burden of higher interest rates has been borne by the household sector. In conjunction with higher fuel prices and a moderation in household asset values, this has led to a significant slowing in household consumption. Industries which are closely linked into household spending, such as retail and wholesale, have felt the pain.

A spill over effect of subdued household spending power and high interest rates has been continued softness in dwelling construction. Residential construction approvals have fallen steadily through 2008. In contrast, non-dwelling business investment has remained very strong, largely but not only in mining, and business profitability has remained high.

The relative performance of the states can be viewed in the light of the differential performance of the household and business sectors. Those states with a greater reliance on domestically generated demand and the activity of the household sector have performed less well while states and territories with a greater reliance on business spending and investment have continued to do relatively better.

The state which has been most negatively impacted by these developments has been New South Wales. New South Wales was the only state to experience negative growth in state final demand in the June quarter. No other state came remotely close; the next slowest growth in the quarter was a perfectly respectable positive 1% by South Australia. New South Wales has suffered the perfect storm. Its households are the most highly indebted, and so most sensitive to higher interest rates. Population growth is the second slowest in the country. Sydney is (arguably) the financial capital of Australia, and is bearing the brunt of financial market uncertainty. The residential construction industry is in recession, partly due to lack of demand, but also due to the highest government developer fees and charges. And the business investment boom has largely bypassed the state. As a result, New South Wales is one of only two states in which employment is now falling (the other is the Australian Capital Territory).

For rural Australia water remains the key issue. Recent widespread rains have led to cautious optimism for the winter crop, with estimates pointing to closer-to-average production of around 24 million tonnes. However, irrigators in the Murray Darling Basin are facing the grimmest conditions in living memory, with the irrigation season opening with 0% allocations in many instances.

We remain confident Australia is not heading for recession. One reason for that is that the authorities have considerable ammunition at their disposal to counter a downturn. The Reserve Bank has already cut the cash rate by 125 bp, but at a level of 6%, policy remains on the tight side of neutral, and we expect further significant rate reductions through late 2008 and into 2009. The Commonwealth Government is also in a very comfortable fiscal position, with no net debt, and with a large budget surplus this year (estimated at the time of the May Budget at $22bn). This provides plenty of scope for additional spending or tax cuts should economic stimulus be required. And this could be augmented through dipping into the various special investment funds which have been established through years of surpluses, with spending from the infrastructure fund already being slated to be brought forward.

Tony Pearson
Deputy Chief Economist, ANZ

PURSUIT OF PRECIOUS time

IS BALANCE AN IMPOSSIBLE DREAM?

time

Teetering workloads and their inroads into life space are impacting everyone, with or without children, in private businesses or public service. Anecdotes of employees working 100-hour weeks on major deals have recently been matched by accounts of staff in the prime minister's office quitting under gruelling work pressures.

Says Wendy Piersall, CEO of Sparkplugging - a web-based business and life-balance magazine, "Not a week goes by that I don't come across between three and ten people in our social media space who are trying to get out of their full-time job, or they've left in search of better work and life options."

Work overload is no myth. It's supported by study findings released in July by the University of South Australia's Centre for Work + Life. The 2008 Australian Work and Life Index (AWALI), funded by three state governments and the Australia Research Council, canvassed 2,800 working men and women nationwide. More than half felt overloaded at work, agreeing they often had "too much for one person to manage". Around the same number of respondents felt pressed for time at work.

Along with too much work, the other main predictor of poor work and life interaction is an unsupportive organisational culture, the AWALI report noted. Researchers assessed the support from direct supervisors as well as the prevailing culture of the organisation.

WHAT PEOPLE WANT

Short of the unaffordable-for-most dream of getting off the treadmill altogether, what would people like to see? These factors are often cited:

Fewer hours

Three-quarters of men and women working long full-time hours would like to work different hours, and almost always fewer, according to the AWALI study. Most of this group would be prepared to take a pay cut in exchange for less time on the job.

Flexibility

Many national and international assessments have found that staff commitment grows when a company is willing to work around employees' personal requirements. Centre for Work + Life research also shows that organisations offering flexible working times are more likely to have staff who are satisfied with their work and life balance.

Demarcation between work and play

Technology has enabled working flexibility as never before. But does that flexibility set you free, or place you always a call or message away?

"Not a week goes by that I don't come across between three and ten people in our social media space who are trying to get out of their full-time job, or they've left in search of better work and life options."

Wendy Piersall

Most workers want the delineation between work and personal time to be articulated, transparent and respected. US-based Wendy Piersall wound up her first home business when its boundaries overwhelmed her other commitments.

"With my first business, my equilibrium was so out of whack I had to get out of the house to recover it," she says. "I'd worked for myself for so long there was no boundary between work and home."

WHAT EMPLOYERS CAN DO

Amir Elion, Israeli management consultant and founder of a best100ideas.com website on practical innovation, urges managers to be more creative in promoting a supportive culture.

Be flexible

Allow employees to work at home one or two days a week. And empower managers to give staff random days off on a fair and allocated basis, he suggests. The positive, cumulative impact on the organisation's atmosphere and energy will outweigh the costs.

Demonstrate that employees' lives are important

Provide opportunities for employees to talk about or promote a non-work-related issue within the team or company. This could be discussing a charity or cause they support, a family story they'd like to share or a personal skill others may not know about.

Family involvement

Involve employees' families in the workplace. For example, send out notices of individual or team achievements to their homes, invite families and friends to visit the workplace, encourage holiday employment for employees' teenaged children or have drawing competitions for kids based on issues related to the business. ■

"I'LL TELL YOU ONE THING," THE CHIEF FINANCIAL OFFICER for the Manildra milling group says eventually, "we don't get involved in too many five-year plans."

There's one overriding reason privately owned Manildra sets shorter planning horizons than many other companies. The largest processor of wheat in Australia, it buys over 1.1 million tonnes of grain from local growers each year, but the supply situation is fraught with uncertainty. Five of the past seven years have been drought-affected.

Even in bad years Australia produces more than enough wheat to meet domestic demand of five to six million tonnes. The problem for companies like Manildra – and clients who consume its finished goods – is cost. In good years Manildra buys its wheat in its home state of New South Wales but in 2008 it has had to pay more to source supplies from South Australia and Western Australia.

"Besides, if you're looking back at what you planned five years ago and spend too much time on where you went wrong, you never go forward."
Peter Stretton

"So our long-term planning is more focused on production facilities and capacities," explains Sydney-based Peter Stretton. "Besides, if you're looking back at what you planned five years ago and spend too much time on where you went wrong, you never go forward."

AN INTERESTING INDUSTRY

Established in 1952 with the purchase of a single mill at Manildra, New South Wales, the eponymous Manildra group is an interesting family business in an equally interesting industry.

It's run by the third generation of the Honan clan: John Honan, the current managing director. John's father Dick – son of founder Jack – is the chairman. For over half a century, the family has "vertically integrated" the firm, diversifying its product range to include flour, pre-mixes and products derived from flour for the food and other industries – like modified starches, glucose syrups, gluten, specialty protein products and ethanol (ethyl alcohol).

At the same time Manildra has developed strong export markets, chiefly in the US and Asia, and is involved in two joint ventures – a sugar refiner and a fuel distribution business which blends ethanol with petrol for independent service stations throughout Sydney and the New South Wales south coast.

CASHING IN ON DEMAND FOR ETHANOL

Manildra's ethanol business is especially noteworthy given its recent expansion. Demand has been boosted by the New South Wales government's mandate to include biofuels as a two per cent component in all fuel sold at service stations.

Manildra distils ethanol from waste streams of starch at its flour processing facility at Nowra, south of Wollongong. This plant's capacity for producing gluten, starch and ethanol is currently being increased. By the end of next year it will have doubled its ethanol production to in excess of 250 million litres a year.

Existing facilities are impressive too. Employing over 800 people, Manildra owns three huge flour mills – at Gunnedah, Narrandera and Manildra. Its US operations include a flour processing plant in Iowa and a corporate office in Kansas.

SIMPLE PHILOSOPHIES

How does a family business so dependent on the fickle agricultural sector achieve over half a century of continual growth?

The answer lies in four refreshingly commonsensical philosophies. The company 1) builds long-lasting relationships with customers, 2) relies on a solid partnership with its bank, 3) continually innovates and 4) reinvests all profits into its manufacturing facilities and technology.

"As testimony to that our flour mill at Manildra ranks among the top ten largest in the world," says Chairman Dick Honan.

CUSTOMERS COUNT

Maintaining lasting relationships with clients can be hard work at the best of times. Manildra is routinely faced with the prospect of telling customers prices have gone up because of drought. Yet most clients understand these vagaries, says Stretton. And when wheat prices drop the company repays them by dropping prices.

Manildra adds value to clients' businesses in other ways. Technical service specialists of the sales team, for example, advise customers on the best ways to use new and existing Manildra products, to improve efficiency and product performance and cut costs.

"Many of the products we use require a high level of technical support so we make sure we're over-resourced in that area," says Stretton. "Our people, including the owners, spend a lot of time seeing customers. It's unusual but it's the way this business was built."

BANKING ON A RELATIONSHIP

Unusually, too, Manildra not only views its bank as a "vital stakeholder" it cites the relationship with ANZ as instrumental in its success. Stretton is keen to stress this. "We've always viewed them as a key partner, not a financier, because without them we literally wouldn't survive."

Manildra keeps its bankers informed "to a fault" on every topic related to the business. It must have a bank that understands the seasonality of agriculture and ANZ is one of few institutions that do understand it, he says. "They go about their business in a way which engenders loyalty among their customers."

ANZ helps in other real ways. Manildra locked in a funding package prior to the start of the credit squeeze, locking in rates and finance for the medium term. "That was of course in hindsight a great move," says Stretton.

INNOVATING ALWAYS

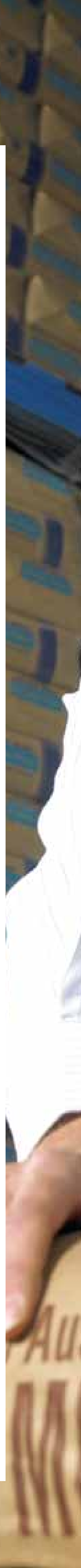
Continually innovating is another way Manildra mitigates risk. Though it tends not to move too far away from core products and what it does best, it operates a fully resourced R&D facility.

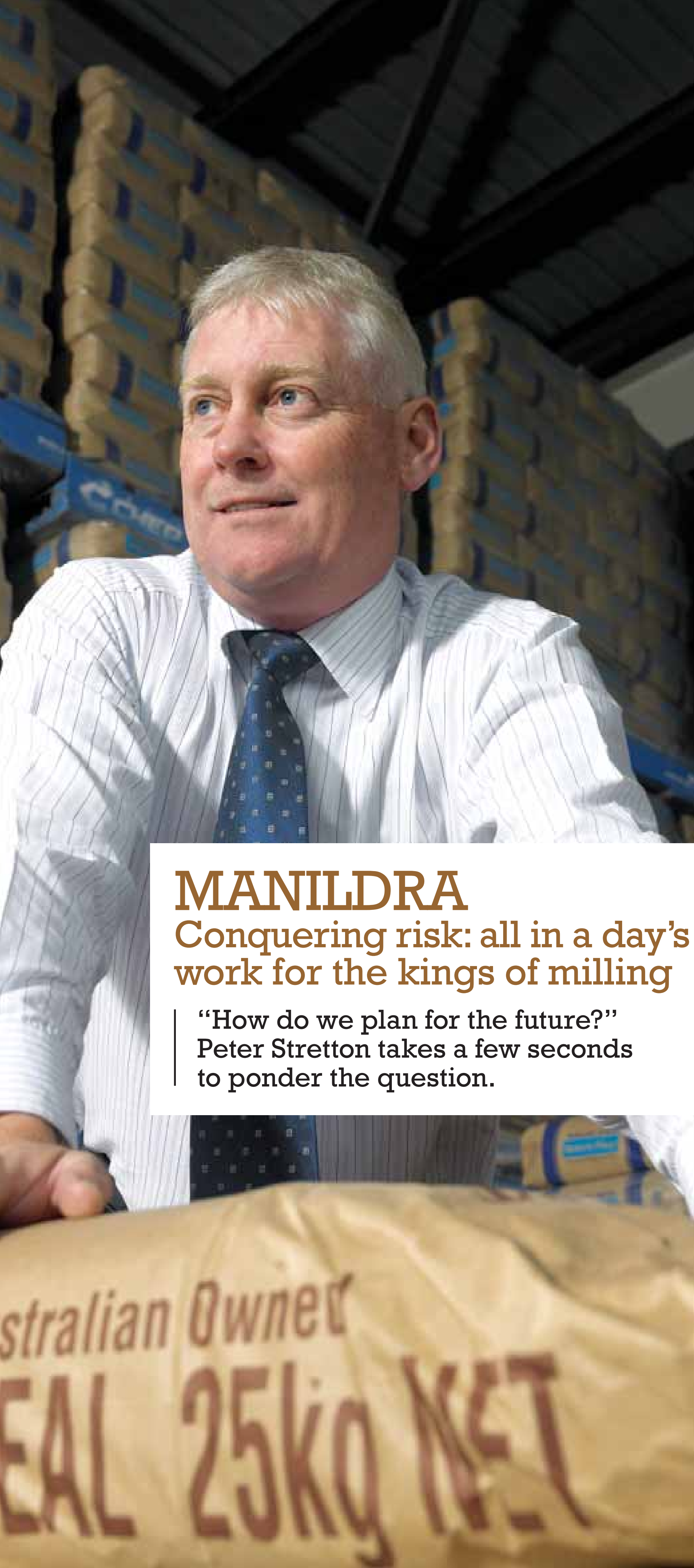
At the moment new products under scrutiny include high-value modified starches and proteins for food and industrial applications. New process development work is being directed at technology for gluten and glucose production.

CONTINUALLY REINVESTING

Reinvesting profits in the business is one of the most important ways Manildra stays ahead of the competition, says Stretton. It means its plants are world class and can compete with anyone in the world.

But perhaps the main reason it's been so successful is the drive and focus of the owners, who are completely involved and expect the same of employees. "Their





MANILDRA

Conquering risk: all in a day's work for the kings of milling

"How do we plan for the future?" Peter Stretton takes a few seconds to ponder the question.

determination to succeed is infectious; no one rests on their laurels here," says Stretton.

Does that mean employees are expected to put in extra hours? Sometimes, yes, and it's reflected in the number of mobile phones in the company. The owners will call any staff member to ask questions in any part of the business at any time of the day or night.

AN EFFECTIVE STRATEGY

People accept this as part of the culture, Stretton says. The owners want the business and everyone who works in it to be successful, and everyone gets the message. Likewise employees appreciate the Honans are genuinely interested in what they have to say. They listen – to ideas and complaints alike.

The effectiveness of this strategy is evident in low staff turnover. Employees, in turn, are repaid with remuneration levels above industry standards and pleasant, informal workplaces.

The Honans make all the important investment and operational decisions, albeit with in-depth discussions with Peter Stretton, General Manager Peter Simpson and the plant managers and buyers. The people in charge of wheat buying are critical to the business, so they're viewed as being very senior in the organisation, says Stretton. Logistics is a crucial area too.

With its flat structure and solid business philosophies, Manildra's vision for the future seems assured: it plans to continue expanding in Australia and to increase penetration of world markets with high-value manufactured products derived from Australian agriculture.

"That's the essence of it," says Peter Stretton. "Dick Honan has always said this is a very simple business – though I haven't found too many who agree with him."

Manildra maintains prominence in milling by:

- Fulfilling the requirements of customers and building lasting relationships
- Viewing its bank as a vital stakeholder
- Maintaining a policy of innovation and continuous improvement
- Developing first-class practices in key processes and product development
- Reinvesting profits in the business.

More than half of family business founders in Australia are aged over 50 and a quarter are planning to sell their companies within five years, according to Family Business Australia. Yet 78 per cent have no formal succession plan and 62 per cent have not yet identified who will take over when they leave.

Another barometer of the family business succession problem is that, in Australia (where about 70 per cent of businesses are family owned) fewer than a third are seeking HR advice in the midst of the worst skills shortage the economy has ever experienced, according to the recent *Survey of Family Business Needs* by KPMG, Family Business Australia and Deakin University.

GROOMING THE NEXT GENERATION OF LEADERS

- WHAT'S HOLDING BUSINESS BACK?

Bonni DiMatteo, President of Atlantic Consultants in Massachusetts, gives this memorable warning: "If you don't plan for succession, succession will plan for you."

As an example she cites the case of a rare-breed fourth generation family business with several children working in it. An intention existed to work out a succession plan in writing, but like many good ideas it did not get implemented. Then the leader was involved in a disabling accident. The result: succession by crisis.

The irony is that in many private companies, owners *know* they should put more into developing the next generation to take over. They know, too, such planning may be critical for the future of their family itself. Yet somehow they always find a reason to put off doing it, usually: "I'm too busy".

Undeniably, while in family businesses operating as an informal, casual, entity can have the powerful advantages of easy communication and flexibility, that same informality can mean grooming talent for succession and other essential practices are ignored or done on the fly.

NEEDED: A NEW DEFINITION OF SELF

Another reason for the failure to plan is psychological, says DiMatteo. It's difficult for a founder or current leader to let go and groom somebody to take their place when they have no plan for their *own* future. As a result, she says, the first and most important step in succession planning is having leaders come to terms with a new definition of themselves.

"We're all in denial that our lives are finite or have definitions outside of what we do sixty hours a week, so when you help someone develop their personal strategic plan, they find a new purpose for their lives and can begin to let go of old roles and responsibilities," she says.

This is where an outside consultant can play a role. The process can entail retreats, coaching and open discussion with family members so owners can visualise themselves in a different role as a mentor, perhaps, not a doer. It's an important option, as long as the patriarch or matriarch can respect the boundaries of the current leader.

"Again that's partly the work of the consultant - to help establish those boundaries and rules around the new definition of leadership," says DiMatteo. "We have one company here in America where the original founder still comes to work every day. He's 105 years old but the arrangement works."

SELECTING THE BEST

Another error private companies make is to assume the best person to lead the company from the next generation comes in birth order, or is one gender. Not true, says DiMatteo. Once the current leader embraces the idea of succession, the process begins with strategic planning and a vision of where the company will go. The second step is identifying the attributes, competencies and skills the ideal leader will have. "Not the skills you need for the company right now," DiMatteo emphasises, "but for the company you're going to have."

So a key leadership competency in future may be quite different from what it is today - perhaps technological, communication or customer-relationship skills. And once these have been identified, the decision-makers (the owner, board of directors, executive team, external consultant or combination of these) must identify the other key positions that will change or be opened up once the top person moves on.

"When you've identified those open positions and the competencies required you start to evaluate who is in there."

BE OBJECTIVE

That raises the issue of having talented people in the organisation who are disappointed. The best way to manage this is to set and communicate objective criteria for selecting a leader, says DiMatteo. Other people in the business can then see the selection is not just about blood or loyalty, but made in the best interests of a valuable enterprise.

PLAN PROPERLY

Once the new leader has been identified, DiMatteo suggests he or she is subject to a development plan that includes training, coaching, mentoring and 360-degree feedback from people in all levels of the organisation - before and after the program so decision-makers can see how they've improved.

Only once they have been tested and retested should the choice be finalised. Then a transition plan should be implemented over at least two years to ensure the organisation does not lose customers and vital staff.

"If you don't plan for succession, succession will plan for you."
Bonni DiMatteo

"With any transition you can get a flight and fight response from customers both internally and externally," says DiMatteo. "So there must be a thorough plan to introduce and integrate that leadership person. By being thorough you miss a lot of potential bumps."

Indeed abrupt changes in leadership can create enormous fall out with attendant loss in productivity and profits. DiMatteo refers to the owner of a US family-run retail clothing chain who told one of his seven kids, while walking on a beach, that he should be the leader. When the siblings and staff heard about it, there was "uproar," and morale plummeted.

Atlantic Consultants were called in to help coach the existing leader and other managers in good communication techniques, allow people to express their frustrations, groom and train the new leader, create significant roles for the disappointed people and build a new sense of teamwork.

"And all because of a comment on the beach."

If owners communicate properly, they can get the family and executive team to see it's in everyone's best interests to choose not just the favourite leader but the best leader to ensure the business continues and flourishes.

"A truly effective leader always finds time to work not just *in* the business but *on* it," DiMatteo concludes. "The greatest legacy of leadership is to be able to develop the next generation of leaders."

SEYMOUR WHYTE:

where being agile and decisive reaps rewards

When CEO Brian Riggall and senior colleagues at civil construction group Seymour Whyte saw the cost of traffic management equipment soaring on road projects, they had an idea.

WHY NOT SET UP A PLANT DIVISION to buy and manage their own barriers and electronic signage?

The business case was placed on the table and the board signed the idea off at a single meeting. Now instead of having margins eroded by escalating costs, the Queensland-based business made a return of $1.5 million for the recent financial year through rentals. "Had we been slow to act it would have been an opportunity foregone," says Riggall.

The executive team at Seymour Whyte pride themselves on making quick decisions. Many private company leaders point to agility as a desirable attribute, but in this company's case it's integral to the way it operates.

Though Seymour Whyte reports in the same way as a public company and has the same controls and accounting standards, it has a small group of shareholders to whom senior managers talk directly about decisions they want to make.

"We communicate with these people regularly and often so they understand our strategy," says Brian Riggall. "This gives us much more agility than we'd have in a public company regime - we make decisions that are in the best long-term interests of the organisation and our clients."

The world of Australian civil construction is not for the faint-hearted. Operators must wrestle with vast, challenging projects worth hundreds of millions of dollars and attract, train and retain many thousands of workers.

Seymour Whyte has overcome all obstacles to show stunning growth. Turnover rose from $35 million five years ago to an expected turnover of around $200 million in 2008-09, and more good news is expected in future. The company has its sights on 20 per cent compound growth rate over the next five years as it tackles major projects across Queensland and New South Wales.

In addition to quick decision-making, Seymour Whyte owes its success and reputation for uncompromising quality to a collaborative and supportive internal culture, says Riggall. "We tend not to hire and fire," he says, "and the strong emphasis on collaboration is extended through to customer relations."

Riggall describes the "inverted organisational structure" in which everyone's energies are focused on serving projects (and customers) as a key component of the company's success.

"We have a culture of direct execution; this gives us real understanding and skills when we utilise subcontractors," explains Riggall. "With our project-centric focus we don't set up systems to help the head office, we set up systems that help the projects."

This, in turn, builds competence and people skills where projects are delivered on time with high standards of safety, quality and cost efficiency, Riggall adds.

INFRASTRUCTURE BOOM BENEFIT

Headquartered at Eight Mile Plains south of Brisbane, the Seymour Whyte business started 21 years ago when two former project managers from John Holland, John Seymour and Garry Whyte, decided to set up on their own. They began with road building which they had identified as a profitable and underserviced area of the market. Today the group's expertise ranges from roads, bridges and bus and rail infrastructure to mining, energy and facilities for local, state and federal government agencies and corporations.

Seymour Whyte has a core team of 130 people and three divisions - civil construction, building and Seymour Whyte Investments, the investment arm. It has capitalised on the boom in infrastructure development in Queensland especially, with current projects for its civil construction division including a $300-million bridge across the Brisbane River for Brisbane City Council in a joint venture with Bouygues and Macmahon and an alliance with the state government to build the $1.4 billion Ipswich Motorway in a joint venture with Abigroup and Fulton Hogan.

MORE ENGINEERS THAN THE COMPETITION

While keeping the labour force gainfully employed, Seymour Whyte has invested heavily at the professional end of the business, with a far higher ratio of engineers to supervisors than many similar organisations. This enables it to take on more complex projects that require sophisticated processes and systems, and compete directly with major - rather than mid-range - competitors.

This thinking was also at play when it shifted the focus of its building division to be more closely aligned with civil infrastructure projects it was undertaking. "We decided to concentrate on infrastructure like bus and railway stations and commercial buildings that had enough civil engineering complexity to limit competition," says Riggall.

Seymour Whyte's board comprises non-executive Chairman Mac Drysdale who has experience on the Australian Wool Board and Country Road and provides leadership and governance, two major shareholders as non-executive directors, the Company Secretary, Chief Financial Officer and Riggall as CEO. He brings to his position some 25 years' experience with Baulderstone Hornibrook.

And the board is likely to be expanded soon. "We have a lot of engineers around the table," explains Riggall. "We know we're strong in governance and engineering and probably need more focus on strategy at board level."

> **"The important thing for us is to keep lines of communication short and strategy clear so everyone in the company is moving in the same direction."**
> Brian Riggall

SEEKING CONTROLLED GROWTH

At present a formal strategic planning process is largely the responsibility of the CEO's immediate team of six, plus selected project managers who meet offsite biannually for two days. This is accompanied by refresher sessions and regular executive team meetings.

Strategy includes seeking controlled growth and what the firm calls "related diversification" - delivering projects in new sectors which are suited to its skillsets along with geographic diversification.

Another ingredient of the strategic plan is an organic-growth rather than a merger-and-acquisition model. To support this the company is investing heavily in systems and training. "Right now we're putting in systems that will help us grow in Queensland and New South Wales," says Riggall. "Our new IT system will give us scalability up to $500 million turnover."

COURTING GOVERNMENTS

In an age of private-public partnerships, the executive team realises strong links with the public sector are vital for doing business successfully these days. That's why the executive team meets regularly with senior executives from state governments to discuss existing and upcoming projects and to build relationships.

The same applies to clients. "We've come a long way from picking up the Wednesday paper for inspiration to actively getting close to our customers, finding out what they want, then looking for ways we can help," says Riggall. "That requires plenty of face-to-face contact before contracts are signed - sometimes even two years in advance."

ETHICAL CLIENTS ONLY

Have there been hitches along the way? Of course, but it's motivated the company to work hard for "win-win" relationships in every contract - even the "hard-dollar" ones, Riggall says.

Failure to pay is a scenario which has become less frequent. Some years ago a client couldn't produce design as stipulated in the contract, then wouldn't pay for the fact Seymour Whyte's people were wasting their own time and money while waiting to pour concrete. The company had to go through various processes to get the money owed. "It was so unproductive," says Riggall.

To avoid such negative experiences, Seymour Whyte actively seeks repeat business with trusted clients and usually steers clear of one-off relationships.

"The important thing for us is to keep lines of communication short and strategy clear and simple so everyone in the company is moving in the same direction," Brian Riggall says. "We must also make sure we understand what our customers want and put those two things together. If you get that right you've pretty much got the correct recipe."

Seymour Whyte expects compounded growth of 20 per cent over the next five years because it has:

- A collaborative culture and short lines of communication
- A "project-centric" focus
- A formal strategic planning process
- A partnering approach with clients
- The agility to respond quickly to fresh opportunities.

What is the private sector FOCUSING ON?

DURING A TIME OF CHANGING ECONOMIC CONDITIONS, ANZ HAS COMMISSIONED RESEARCH WITH *BRW* MAGAZINE TO FIND OUT WHAT OWNERS OF BUSINESSES IN THE PRIVATE SECTOR ARE THINKING AND DOING. BEVERLEY UTHER, PRINCIPAL ANALYST AT FAIRFAX BUSINESS RESEARCH REPORTS THE FINDINGS.

The research polled over 500 business owners and key senior management in the private sector nationally, in all industries. This article focuses on the results reported from larger businesses (turnover greater than $40 million per annum).

Owners and operators of businesses in the private sector are, on the whole, optimistic about the future for their companies. Like those business leaders who have been quoted in the media anticipating difficult trading conditions, they acknowledge that external factors in the next 12 months will be more difficult. But they remain positive about the outlook for their own business, and even more optimistic about where their business will be in three years time. For some, the tough conditions might even create new opportunities:

- **"Most business opportunities actually exist at times when the majority of businesses fail to see much opportunity at all."**
- **"…when others are fearful, e.g. right now, [it's the] time to grow and acquire during adverse conditions."**
- **"Affects confidence of our clients BUT gives us even greater opportunity to demonstrate the value we provide."**

Those who have built private businesses report that there is more growth to come. Business growth is expected in the next 12 months by nearly 80% of respondents, and by over 90% of respondents in the next three years.

This growth will most often come from increasing sales of existing products and services, and to a lesser extent by enhancing the product range by introducing new products. For the larger businesses participating in the research, merger and acquisition is the second most important strategy for growth in the next three years, with 22% of respondents citing this as a source of business growth. In addition, 6% of larger businesses will also be looking for partnership or joint venture opportunities. One third of respondents indicated that merger and acquisition would be the most likely form of growth, if capital was more easily obtained.

The funds for business expansion will come mainly from bank borrowings (71%), increased investment from current shareholders (26%), private equity investment (21%) and venture capital (7%).

WHAT ARE THE CURRENT HURDLES?

There are numerous issues that are causing concern currently, some – like the difficulties in attracting and retaining good staff (and the associated upwards pressure on wages costs) have been reported to Fairfax Business Research frequently by senior business decision makers in recent years. Other concerns are more recent, such as the rapid rise in fuel prices and the likely impact of impending federal legislation around carbon emissions.

The key issues most often cited as concerns were:

- Fuel prices
- Staff – attracting, retaining and getting the best from your staff
- Declining consumer sentiment and the threat to margins and cashflow
- Government regulation and climate change issues
- The potential impact of local and overseas competition (and the need for sales and marketing to be able to address competitors)

BUSINESS OWNERS' VIEWS ON TACKLING SOME OF THESE ISSUES

Credit management and cashflow diligence

34% of operators of larger business in the study cite cashflow as a potential area of concern. Business owners know that in the current conditions, it is essential to be rigorous about managing cashflow and working capital. When asked to cite the one best piece of business advice received, advice about managing cash flow and creditors scored the most mentions. Specific advice in this category included the need to carefully monitor the creditworthiness of your customers and their adherence to payment terms.

- **"In a tight market 'innovate, innovate, innovate', watch your debtors like a hawk, and trim costs wherever possible."**
- **"Draw up and continually revise cash flow projections."**

Changing the payment terms for your invoices or issuing invoices fortnightly instead of monthly is a recommendation from one respondent.

- **"…but our clients are being affected. We'll be increasing our billing cycle (billing fortnightly rather than at end of each month)."**

And for those customers who continue to use your money instead of their own:

- **"Be prepared to 'sack' unprofitable clients/customers."**

But it is not only watching the dollars and cents that contribute to the anticipated business growth expected by some respondents.

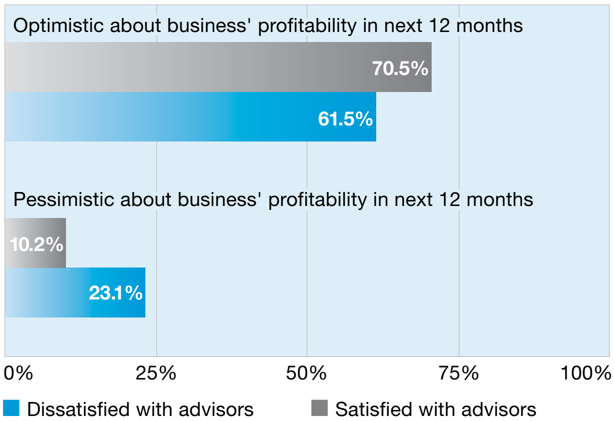
Know the details of your business

The second largest category of 'best advice' revolved around knowing the details of your business, including: managing costs, risks and stock levels, and analysing the data. Business owners advise having a clear and current understanding of all the key measures in the business.

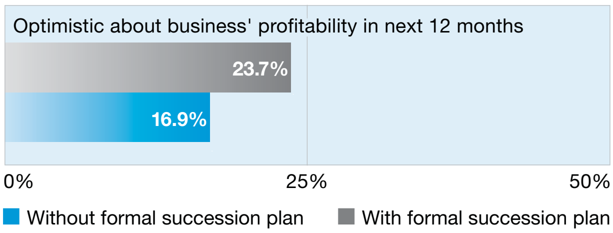
- "Have a handle on your financial position every day."
- "Control your cash flow and have up-to-date accounts.
- "Invest in a good financial accounting/ reporting system that can produce all kinds of reporting in real time…."
- "Seek clarity internally and externally. Leave nothing misunderstood."

Other roads to success – advice and planning

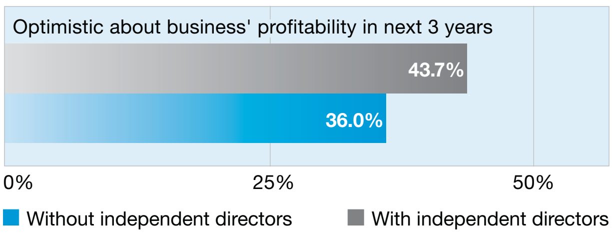
The category of 'get good advice' is the third most often mentioned piece of best business advice. Additionally, in this study, respondents who are satisfied or very satisfied with the quality of advice they receive from external advisors report a more optimistic outlook for their profitability of their business in the next 12 months. As well as external advisors, independent directors can be a source of advice for businesses. The benefits of good advice are apparent to those who have found it.



Those who are satisfied with the advice they receive from a range of advisors are more likely to be optimistic about the profitability of their business in the next 12 months



Businesses with formal succession plans in place are more likely to be optimistic about the profitability of their business in the next 12 months.



Businesses with independent directors are more likely to be optimistic about the profitability of their business in the next three years.

In conjunction with external advisors is the need for business owners to not only understand where they expect the profits of their business to be in the future, but where they themselves will be.

- "….succession planning. It's a real issue."

Like those businesses who have sought and found good sources of external advice, those who have devoted time to succession planning believe that it delivers rewards to the business' bottom line (see chart).

For an economy facing tougher trading conditions, and those businesses experiencing falling consumer demand (perhaps even for the first time) the news is not all bad. Businesses in the private sector forecast continuing growth in profits, and while the outlook is cautious for the next year – the situation is believed to be far better in the medium term (three years). Those who look forward to improved levels of profitability plan to be keen managers of cashflow, be able to understand the total position of the business at all times and to make use of experts through business advice and possibly the use of independent directors.

METHODOLOGY

The survey was completed 22 August 2008. Over 500 owners, shareholders and key senior management from Australian private businesses participated in the study. The survey included businesses with turnovers ranging from $1m per annum to over $400m per annum (including Top 500 private companies). To find out more about Fairfax Business Research please visit www.fairfaxbr.com or contact Beverley Uther, beverleyu@fairfaxbm.com

Fairfax Business Research

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