The Insiders Get It

By DAVID LEYONHJELM

Sometimes what is obvious to an outsider is not apparent to those on the inside. I made that point last year in relation to the disparity between the margins and service of veterinary wholesalers. But reality has a way of eventually intruding, and that now seems to have occurred at Elders.

It has been apparent to outsiders for many years that Elders, or more accurately Futuris, is a lot of potential going nowhere. Indeed, a look at the company's share price makes it clear that investors know it only too well.

A year ago the share price was $2.75. It is now less than $1.20 after falling below $1.00 just prior to the announcement of the departure of the Chief Executive, Les Wozniczka. So what is it that outsiders knew, that insiders apparently did not?

The financial journalist Alan Kohler remarked that, since becoming CEO in 2002, Wozniczka had "continued to collect businesses like a bowerbird" and had "now come unstuck himself".

Wozniczka's predecessor Alan Newman started the bowerbird policy, collecting companies like some people collect butterflies - aiming for a good example of every colour. The intention, which Wozniczka apparently supported until fairly recently, was for Futuris to become an industrial conglomerate like Wesfarmers.

Outsiders saw that as a crock. Wesfarmers only gets away with its strategy because of its financial discipline and performance. Were results to slide, the market would slaughter it.

What investors do not like is the thought that those running the company are making it up as they go along. To them it seemed that Futuris was speculating, sometimes paying too much and occasionally getting lucky, but with no clear plan.

A few non-core businesses have nonetheless been sold in the last year and more sales were planned when Wozniczka was put to the sword. As I wrote a couple of months ago, it looked as if the company was raising funds for an acquisition to complement the core Elders business.

Shareholders have now received letters acknowledging the lousy share price and admitting new management and a fresh approach are needed. It also says resources are to be concentrated on the core rural and regional businesses, with divestment of non-core assets accelerated to reduce debt. At long last the insiders have got the message too.

Alan Kohler suggested the company change its name to Elders Ltd and sell everything except the core business. As he points out, the drought will eventually break, things will continue to grow and servicing farmers will be a good business again.

That seems eminently sensible but it raises an interesting question about the nature of the company's core business. Even defined as servicing farmers, it is far from obvious what that includes.

The new MD of Elders, Mike Guerin, has gone for a major organisational shake-up aimed at improving service. Based on a McKinsey plan, the state structure has been abolished in favour of 20 regions. With a raft of new jobs on offer, resumes have been polished up all over the country.

However, regional management is not a new idea. In the early 90s Elders established 80 regions, which then became 12 before returning to state management. The main difference this time is that there will be key account managers as well.

The test is whether customers actually receive better service. Will regional managers have contact with customers or just oversee (and ultimately annoy) branch managers? Will branch managers still focus on major clients or be expected to step back in favour of account managers? With no state managers, who will liaise with corporate decision-makers in capital cities? Can any of them do their job if head office controls the important levers?

To this outsider, the reorganisation is a diversion. The bigger question is whether Elders can find ways of making more money out of its relationships with farmers, through new and better service. Unless it can, it may as well go overseas and attempt to replicate its current Australian activities.

Opportunities for domestic growth can be found. Elders' share of the fertiliser market, for example, is low (for reasons of its own making, it must be said.) Fuel distribution appears to fit with its network, as do seed, tractors and machinery. It is not strong in sectors like dairy, cotton or horticulture. There is aquaculture and farm silviculture, with or without convoluted tax concessions. Elders Rural Bank struggles with its cost of funds due to Bendigo Bank's small size.

But to me the biggest opportunity revolves around whether it can win the trust of farmers enough to not only sell them inputs, but to also sell most of their commodities.

That is not a new idea; selling wool and livestock is how Elders started. But it does require fresh ideas. It means not only having customers, or at least partners with customers, who will pay good prices for the commodities. It also means making it easy to sell them when, where and how farmers want. Like getting cash up front or waiting for the market to move; storing it on or off the farm; removing a little or a lot of risk; providing tailored or raw market feedback.

Outsiders have long believed Futuris has the potential to be much more successful than it has been. Now they wonder if the insiders can do it.

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