

Co-operative Federation of SA Inc Conference

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Overview Balhannah Co-operative

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Ltd

On behalf of the Board and members of Balhannah Co-op I bid you welcome and thank you for coming to Balhannah. We are proud to be hosting the conference and trust you will find something interesting in our Co-op's journey, our view of our present situation, and vision of our future.

So what is Balhannah Co-op, where has it come from, what forces both internal and external have shaped its current form, and where do we see ourselves in the future. What is relevant in our experiences that may assist some of you in your organisations? I will answer these questions by taking a brief look at our Co-op's past, present, and future. Please feel free to ask questions as I go should you wish for further information.

BCS is an apple and pear growing co-operative. Our primary mission is to provide quality storage of our grower's fruit. We have however a tradition of looking beyond the needs of apple and pear growers and satisfying the storage demands of Hills and regional primary producers in a wide variety of areas. We also have a Merchandise operation that has also grown well beyond its rural roots.

A progressive attitude focused on meeting local demand underpins the success of BCS from its origins in 1914. In this year H Wicks and A Filsell jointly built the

first privately owned cold store for fruit in Australia – Balhannah Cold Stores. At this time apples had a selling season for quality fruit lasting at the best six months. Cold storage extended the selling season to be almost year round, a major step forward for apple growers. This first room had a 3000 bushel capacity – approximately 150 bins, and had an ice works built next door. Packed saw dust was used as an insulating material.

The room was an immediate success and capacity was expanded over the next twenty years to 24,000 bushels (900 bins). These rooms stood the test of time for almost ninety years, until the floors started collapsing in 2002. The rooms were very solidly constructed using six inch square Jarrah posts and large deck spike like nails – our own workers were defeated when we attempted to demolish it ourselves, we needed a proper demolition crew to tear them down.

BCS served the district well until the end of WW2. Soon after the war ended there was a substantial increase in the number of growers and area under crop. A change in structure was decided on. In 1946 31 growers from the area formed the BCS Ltd and raised L7,700 to purchase BCS from Wicks and Filsell.

The next twenty two years saw a rapid and progressive expansion of cold storage rooms with 112,500 bushels added. (5600 bins). Technology changed dramatically from wood fired boilers to electric compressors, from ice to ammonia refrigerant, and the conversion of some rooms to CA whereby the oxygen content of the room atmosphere is lowered to further retard the ripening.

The Co-op had a busy packing shed employing up to 50 people and packing as many as 116,000 cartons of export apples at its peak. It was in this period that BCS started storing cheese and began building some freezer rooms to cater for local meat processors. In hindsight these decisions to satisfy demand beyond that of apple and pear growers were to have a significant effect on the long term direction and prosperity of the Co-op. Potatoes were also an important Hills crop and helped utilise the rooms beyond the apple storage season. Our Co-op's tradition of innovation was highlighted in 1956 with the introduction of bulk

handling using a tractor mounted forklift – a world first for a community packing shed.

The period 1970 to 2000 saw a more gradual increase in storage space, freezer rooms being the main area of expansion. A number of local processors came and went in this time, but clearly the decision to expand in this direction was proved to be correct as new freezer clients appeared not long after others had fallen by the wayside. We have serviced abattoirs in Port Pirie and Waikerie, as well as Lobethal and a number of smallgoods processors.

Throughout this period the area around Balhannah was changing demographically, the rural nature of the area was giving way to a higher proportion of semi suburban housing, and viticulture was taking over from horticulture. Apple packing was becoming a high tech process requiring high volumes and substantial capital investment. BCS closed its packing shed in 1988 realising that it no longer had the critical mass to stay at the forefront in this area. Recognising commercial realities has always been a strong point of the Co-op's management.

BCS has operated a merchandise section since its early days. This was originally set up to obtain better prices for growers bulk farming requirements, and provide a convenient local place to obtain tools and other hardware lines. As the population has grown in the area we have steadily increased our product offer to cater for local demand from both growers and the general population. Non-members were encouraged to obtain "B" class membership which provided significant discounts and a real sense of belonging to the Co-op.

With changes to the Co-op Act in 1999 the B class membership was no longer legal. These customers were transferred to a loyalty club, and still provide a large percentage of the Merchandise sections turnover, with over 4600 active memberships on the books. We sign up 30-40 new members every month, and

see it as an important way of maintaining a relationship with the local populace. The membership gives a generous 7.5% discount off non-nett and sale items. While this is expensive in terms of gross profit margin, it plays a strong role in customer loyalty and promoting a positive price perception.

So where has our progressive thinking and responsiveness to market demands led BCS in 2004. On the Cold Storage side of things we have rebuilt on the footprint of the original rooms (for EPA reasons). This has taken our capacity to an all time high of 22,000 m³ spread over 25 rooms. This allowed us to easily handle a bumper apple crop in 2003, and also assist a number of non-member apple growers who were searching for scarce storage. We have also recently invested a significant sum of money in consolidating two plant rooms, and bringing our plant controls up to a current standard. This will provide financial benefits both through lower power consumption, and avoiding the expensive upgrading of duplicate plant and equipment. Despite some ups and downs in recent years we are currently 99.5% full, with good prospects in the next few years. We store a wide variety of produce for local primary producers including cheese, apples, pears, onions, potatoes, wine, vine rootlings, meat, frozen fruit concentrate, even xmas puddings. Our clients include local farmers, large national companies, well known Hills fine food manufacturers, butchers, and local vineyards. We feel that while we have developed far beyond just apple storage, we provide facilities and services to a customer base that remain within the spirit of our founding fathers.

Our merchandise business now operates as a subsidiary company called BH&GS P/L. This business is primarily a commercial hardware business. The decline of grower numbers has meant that we cannot compete in high volume rural chemicals and fertilisers. Rather than lose money pursuing business that no longer has a strong demand in our immediate area we choose to use our scarce space to focus on areas that our customer base demands. Rural fencing still has a general demand and we remain a strong competitor in this business. In the last year we have been identifying gaps in our product offer, in areas that

we can compete in as a major player in our local market. This has led to a much broader range and depth of stock being added to our timber and building offer. Bathroom plumbing is also poorly serviced in the Hills and we have added a small but professional display area that is close to completion. We are reviewing the rest of our range to replace slow selling product that is not demanded by our customers with product that is wanted. Presentation and merchandising is also being improved to sell our strengths to our customers - through professional displays we help instil in our customers belief and confidence that we are the right place to spend their hard earned money. This complements our team of staff who have the job of finding the right match between the customer's desired outcomes, and our product range.

BH & GS is starting to reap the benefits of some recent hard work and looks set to achieve some exciting growth in the next few years. While still a work in progress you will see many of the improvements if you are staying to visit the Society premises later.

So stepping back from the positive direction we are heading in where does our Co-op sit in our marketplaces, and what do we have to look forward to.

Our Cold Storage operation is still at a reasonable critical mass that allows us to offer our growers both subsidies and rebates that add value to their orchard operations. We have sufficient external business that poor apple crops have little financial effect on the Co-op. The volume of apple storage used in 2003's bumper harvest proves that we are remaining true to our founding fathers vision of being a key part of local apple growers businesses. The storage of cheese, wine, and other lines have allowed us to maintain and upgrade our facilities to a level that pure apple storage could never have sustained. Without our vision of catering for local demand we would not be able to assist many local primary producers get their product to market. Our freezer operation provides a low cost alternative for smaller processors to the Swires dominated meat export business.

This helps maintain the viability of these producers and keeps jobs in the region from drifting into Adelaide.

Over a very long period our Board has taken prudent commercial decisions that have maintained our critical mass and financial viability. This has been a long term vision that has avoided grandiose projects, yet always remained progressive and forward thinking. We have adjusted to major demographic changes in our region that have threatened our existence. Indeed many rural co-op's have not survived the winds of change over the past fifty years. By looking outwards, while remaining true to our reason for being, we have not only survived but prospered and are a key part of both our apple growers and other customers operations.

Our merchandise operation has evolved well beyond being a resource for our growers. We have lost critical mass in terms of rural chemicals and fertilisers simply through the changed nature of our area. Rather than fight over this business with other local co-op's who have bigger numbers of growers, we have largely exited the rural area.

As is occurring generally in business, in the hardware industry smaller stores are being squeezed out by larger competitors. We are a medium sized store in a market that has grown rapidly in the last fifteen years, and we must either grow with the market, or inevitably a competitor will move in to satisfy unrequited local demand. We have taken steps to grow sales substantially; this will give us much better economies of scale, and raise the return on investment and effort to a more appropriate level. However this will still not fully satisfy the level of market demand we have identified through some market research. This is a strategic dilemma that is receiving considerable attention at Board level at the moment. It has sparked a strategic review process that has us reviewing our co-op's operations in total. We are restating our mission and business plan in terms that are relevant to the 21st century marketplace in which we find ourselves. There is a strong sense of being custodians of an important local institution among the Board. We will remain true to the principles and vision that underpinned the first

fifty years of the Co-op's existence, but continue to look at commercial realities and be guided accordingly.

Thank you for your attention and I will be happy to answer any further questions you may have.