

ASIALINK SPEECH OUTLINE

Business success in our region – taking Asia very seriously

Introduction

Sidney Myer, Jenny McGregor, ladies and gentlemen. Thank you for the opportunity to tell you a little about Linfox's vision of being the supply chain solutions provider of choice across the Asia Pacific region.

- Australia by anyone's reckoning is a small economy. While its vast distances present logistical challenges for my industry, its 20 million people provide a limited market.
- The Asia Pacific region on the other hand, Linfox's actual and aspirational marketplace, is home to 60 per cent of the globe's population and includes the world's fastest growing economies.
- With just 20+ years of business experience in Asia, and that's more than many companies in our industry, Linfox has learned significant lessons about being an Asian logistics company with an Australian head office. I've been privileged to be intimately involved in helping to establish Linfox's business in Asia over the last seven years.
- At the moment my job keeps me in Asia about one week each month. Three years ago I was in Asia for 50 per cent of my time.
- This morning I'd like to briefly outline the Linfox business of today – with an emphasis on our strategy and the pivotal role that working in Asia plays; share some of our key learnings from 23 years of operating as an Asia Pacific company; and conclude with a case study or two that demonstrate the practical side of our global business.

Our global approach

- Rudyard Kipling said, "*Asia is not going to be civilised after the methods of the West. There is too much Asia and she is too old.*"
- While Kipling controversially spoke of 19th Century European imperialism, his observations of Asia are instructive:
 - We must respect deeply rooted ancient cultures when we Australians strike business partnerships across Asia.
 - There is no single Asia; the world's most populated continent has many countries and regions. And these give rise to a multitude of ethnicities, customs, business styles and political systems.

While we are a global business and many of our customers are leading global brands, the fundamental lesson is that we must act locally. We have proved by hard experience the Friends of the Earth saying, 'think globally, act locally'.

Linfox – a brief outline

Let me tell you a little bit about Linfox. Most of you recognise our founder Lindsay Fox and our red and yellow trucks bearing the 'You are passing another Fox' slogan. But there's much more to Linfox today.

- Linfox is the largest privately owned supply chain solutions company operating in the Asia Pacific region. It provides sophisticated, specialised logistics services to major brands in a time of rapidly expanding demand for supply chain solutions across the region.
 - Demand for logistics services will double before 2020 and that requires smarter and more environmentally conscious ways of getting goods to market; driving value for our customers' increasingly complex supply chains.
 - Linfox was founded 51 years ago in Melbourne and today operates across the entire Asia Pacific region.
 - As well as our 5,000 vehicles, Linfox operates 1.8 million square metres of warehousing space and our activities generate work for more than 13,000 people.
 - With operations in 11 countries, Linfox has conducted business in Asian markets since 1984 – for almost half of its business life.
 - Our business is on a strong growth curve – we have increased our business revenue by 200% since 2003. Much of that new growth has occurred in Asia.
 - I'm proud to say that we have a powerful commitment to safety, the environment and to the learning opportunities of our people.
- We have a global VISION ZERO which aims to eradicate workplace fatalities, injuries and unsafe behaviour. We drive a dedicated set of programs across all countries to ensure that safety remains front of mind for all our people, every day. This is paramount in our industry.

One of those programs is known as Stop for Safety. Over the last year, every Linfox employee stopped work for one hour to discuss safety in their work environment with their colleagues. This has now occurred twice in the last year so that practical local safety issues are identified and remain 'front of mind'. That means that 13,000 people across 11 countries took the time to focus on their safety performance as a team.

Some Asian countries do not have the same safety regulations or safety culture that we enjoy in Australia. Nevertheless, one of our first goals in establishing operations is to implement our VISION ZERO. This means starting with basic issues, such as proper incident reporting, which may not be routine at the moment. These practices are soon adopted, not just under our management but they also begin spreading to the industry generally.

Our safety programs are enthusiastically embraced by our people when we open operations in new areas. People love to celebrate safety milestones. Our Safety Manager recently told me that when he entered a large stop for safety workshop at one of our sites in Indonesia that the room erupted with a chant of VISION ZERO – our safety message.

- Our VISION ZERO also challenges us to minimise Linfox's impact on the environment and particularly to develop strategies that reduce our carbon footprint. We have committed senior resources to achieving this by accurately measuring our carbon emissions and developing long term strategies to substantially reduce these.

In Australia we've already been trialling bio-diesel fuels for some time, and in Thailand 320 Linfox trucks recently began using B5 (five percent bio-diesel) fuel together with our customer, Tesco Lotus, which also has a commitment to reducing its carbon footprint. Sharing safety and environmental strategies with our customers is a necessary ingredient for success.

- We are also committed to developing the skills and careers of our people around the world. We have established Linfox College as a learning centre of excellence. It delivers targeted skills training as well as online learning that can be accessed by any employee from anywhere in the world, providing a wide range of computer skills courses.

Our leadership training, which includes courses in negotiation and presentation skills, project management and site managers' leadership skills, is conducted across all our operations no matter what country. It is essential that we improve our people's knowledge and develop our future leadership from right across the business. Consistently high standards and knowledge will ensure consistently high quality performance for our customers.

Positioned for growth in Asia

- Linfox operates in 10 countries outside Australia. While some of our operations in Asia began more than 20 years ago, others are quite new and rapidly emerging.
- A significant and growing proportion of our new business growth is in Asia. For example we began operations in India less than two years ago. Our first customer was BlueScope steel's joint venture with Tata Steel, known as Tata BlueScope.
 - This involved taking our knowledge of BlueScope's operations in Australia to a totally new geography, demography and culture. But it has also been the platform for generating other new business in India.
 - Linfox now operates for a major Fast Moving Consumer Goods producer in India – a company we supply logistics services to in five other countries across the region. And we recently started work for Tata Steel itself; the world's fifth largest steel producer.
 - We bring with us sophisticated logistics expertise, stringent safety standards and a strong commitment to training. These are tremendous value additions that benefit the industry as well as our new employees and of course our customers. An important spin-off is that we help to drive new levels of skill and performance in the countries in which we operate. Indeed our employees become highly sought after for their skills which means our training role never ceases but this also benefits the entire industry.
 - In India we will take on 2,000 new employees in the next year.

- We also began operations in Vietnam over the last two years. We are running three key warehouses for a major consumer goods manufacturer and there are several new business prospects in the pipeline there.
- These rapid developments demand that our business structure continues to evolve to ensure that developing and managing our operations is a smooth process. And we are undergoing a significant restructure, literally as I speak to you this morning.
- Linfox has three Business Units which specialise operations for our various customers by their industry sector: Fast Moving Consumer Goods; Retail; and Industrial. These Business Units operate across the Asia Pacific region. Each country of operations has a Country Manager and these operational leaders currently report to one of these three Business Unit leaders.
- But as the 'centre of gravity' of our business is shifting ever more into Asia our new structure will reflect this evolution. My goal was to have one quarter of my direct reports based in Asia by 2010, but in practice I will achieve this early next year.
- I am in the process of appointing a President Asia for the Linfox business, reporting to me. This role will be based in Asia and will coordinate all our Asian operations and key operating decisions. The Country Managers in Asia will report to this new role so that there is a more hands-on and practical approach for managing our growing business.
- The new president Asia will also play a vital role in developing new business. This is a key strategic reorganisation which reflects the continuing shift in the balance of our business towards new Asian markets. In a practical sense it demonstrates the importance we place on representing our highest levels of leadership in our areas of operations.
- Despite the benefits of high-tech communications, face-to-face communication remains a key to our service industry. We need people on the ground who are close to our operations.
- The head of one of our key operating Business Units will shortly relocate to Asia as well. A sizable proportion of his operations are already based in Asia and the portfolio there continues to grow.

What have we learned?

- We have learned some powerful lessons about operating successfully across Asia – especially for an Australian-based company with business throughout Asia
 - There is no one Asian experience – every region has unique cultural, religious, political and economic characteristics. When we think about Thailand, for instance, we can't simply focus on Bangkok. Thailand's 60 million people live in 75 provinces grouped into five major geographical regions, each with its own unique geographic and economic environment.
 - Not every business opportunity is in capital cities. In China we are currently entering a joint venture in the resources rich north-western province of Xianjiang with transport company, Jinbao. This remote and challenging region has a booming mining industry, not unlike Western Australia, and the Linfox

partnership brings new technology, safety standards, business processes and skills training to an expanding yet relatively remote region of China.

- People in developing economies have a tremendous thirst for our specialised knowledge, that's what we bring. In particular Linfox brings:
 - Expertise in a wide range of well established industry operations that are developing in Asia.
 - The technology and know-how to manage sophisticated large scale operations.
 - Specialised IT processes to generate new value in supply chain operations.
 - A well developed level of training and policies that ensure safety and efficiency.

Our role is to be very focused on success and to train people in all aspects of running a successful supply chain business.

- We quickly learn about the equality of people, no matter what their origin, and it is important to weave this into our everyday business dealings. We are here to add value and develop business; that does not mean we are better than the local people we are working with and our goal is to ensure that more local people are involved in running the business.
- We can't operate our business by remote control. The Linfox model is low on expatriates and ensures that operational and support services are managed and delivered locally by locals. All our site managers, HR and Finance Managers and 2ICs to Country Managers are local people.

Over the last few years we have reduced the number of expatriate Australians in Asia from about 35 to 15 and our goal is to continue reducing that number.

- Linfox's HR structure includes a HR Group Manager Asia, who is an Asian local and has local country HR managers reporting to him. This HR structure is invaluable for ensuring that we attain the right quality of leadership in all our operations across Asia. It ensures that we achieve a high level of cultural and leadership synergies.

Our preferred employees are always local. For example, in India we recruit by using job boards (the equivalent of Seek.com), newspaper advertisements and recruitment agencies, as we would in advertising for jobs in Australia or New Zealand. We consciously aim for the local market.

- We have to choose the expatriates we do send overseas very carefully to fit in and cope with the business region. It takes a certain person to successfully relocate and to establish the type of business relationships – internally and externally – that we expect in Asia. The expatriates are there to supply Linfox's knowledge and skills. Their job is to ensure that the processes and policies we provide are introduced and to ensure that all areas of expertise offered by the broader business are tapped for the local operation.
- Our policies and standards must be consistent across our business. In particular, Linfox's safety operating standards must be at the highest level in every country, even where regulations vary significantly. This is underpinned by

a common set of values about people and business; we care about our people and it's important to demonstrate this in the way we act.

As I said earlier, the safety of all our people is paramount. As some of our operations involve considerable risk, we must implement the most stringent safety procedures to protect our people, our customers and the communities in which we operate, no matter what their domestic regulations stipulate. We must have a consistently high standard in every region. The same is true for innovations that protect the environment.

Our focus on safety and training are highly valued by our new employees, by our customers and by the authorities overseeing industry safety. In establishing our emerging joint venture in China, which I mentioned earlier, our focus on driver and operational processes and training was very important for the local government authorities who are keen to see these learning skills developed for the entire industry in their region.

- Within the next three years we expect to open operations in countries we haven't traded in before. The first of these is likely to be the Philippines where we are actively pursuing business.

Case study

- Often our customers help provide an entrée into new markets. We now operate in six countries across the Asia Pacific region for one particular customer, a major producer of household grocery products. Interestingly enough we do not (yet) operate for this customer in Australia.
- Some of the key lessons with this customer are that:
 - We bring strong advice across countries because we understand their products and their systems very well.
 - We know this customer's people and expectations very well and can work very closely to help them achieve efficiencies in the way they do business.
 - But each country of operations is quite unique. The distribution channels and their customers' operations vary tremendously.
 - The advantage we bring is understanding their global needs as well as understanding their local needs. That lets us deliver a powerful supply chain service that really delivers value.

Conclusion

There is a Chinese proverb that wisely advises, "Follow the local custom when you go to a foreign place."

Not only does Linfox embrace local custom, we ensure that we blend our global knowledge with the local business environment by managing locally.

This is a long and slow process and our business continues to evolve as a true Asia Pacific business. I have outlined the current model for you but I have no doubt that if I stand here again in five years that we will be even more successful across our entire region and that our business structure will have again changed.

The management consultant, Margaret Wheatley, rather cynically says, “The nature of the global business environment guarantees that no matter how hard we work to create a stable and healthy organisation, our organisation will continue to experience dramatic changes far beyond our control.”

My job, and the job of a global business leader, is to ensure that we foresee the influences of ‘dramatic changes’ as far as possible so that we continue to shape our business to trade successfully across borders and cultures. I believe that our team at Linfox has done an outstanding job to date.