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Independence Is

KEY

Through a pooling of resources, a democratically elected board, and a lot of hard work, for the past 14 years National Rural Independents has been securing the future for independent resellers in rural Australia.

Images courtesy of National Rural Independents

Growing up on the land in South Australia, Grant McShane knows a lot about hard work and getting your hands dirty. At 17, he got his first job as a livestock agent and worked continuously in the rural industry for all of his career. In 2001, he was instrumental in founding the National Rural Independents and has been group CEO ever since.

At 65 years of age, Grant isn't slowing down any time soon. *The CEO Magazine* sat down with him to talk about his vision for the rural industry in Australia.

The CEO Magazine: How did National Rural Independents come to exist, and what was the reason it was set up?

Grant: At the turn of the twenty-first century, the independent

sector of Australia's rural merchandising market was fragmented and floundering, in desperate need of a new direction to restore confidence and profitability. Rural independents, who were mostly single-store resellers, had virtually no brand recognition of their own. Their trading terms were dictated by rural wholesalers, and they were never going to create any serious wealth for themselves.

Despite their considerable influence with farmers, independent resellers were rarely acknowledged by the industry's suppliers. The wholesalers or 'middlemen' who supplied the independent sector got all the supplier recognition—and the bulk of the financial reward. In rural Australia in the late 1990s, smaller independents were being squeezed out of the market by rural suppliers closing smaller accounts, preferring to deal with

the two or three 'Goliaths' that had emerged triumphant from a decade of consolidation with massive influence and national scale.

This corporate consolidation and its polarising effects were really the catalyst for NRI's nine founding shareholders to come together in a spirit of collaboration. Together, we came to realise that the best way to counter the corporate threat was to create a new group that could harness their collective power. In short, they backwardly integrated to form their own rural distribution group under the NRI banner.

How important was it for a business such as this to be introduced into the market?

When NRI opened for business in 2001, the entire rural merchandise market was highly polarised. The >

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corporate rural wholesalers at the time included such companies as Wesfarmers, IAMA, Ruralco, Websters, and Roberts. Various mergers of these entities led to the demise of some well-known brands. This left many independents disenchanted with their wholesaling arrangements, with irreparable damage to many wholesaler-reseller relationships, some stretching back several decades.

A group run by independents for independents was seen as the best way to get back in control and restore profitability for independents. The key was to come up with a business model that did not involve sharing profit margins—which continue to diminish as the market becomes more generic—with a third-party wholesaler or ‘middleman’. By

“Having been around for over 130 years, Waratah places a great deal of emphasis on driving innovation. NRI’s strong relationships with their customers, our end users, provides great insight into how we can continue to produce products that the market wants, and needs.” - Ross Lourie, National Sales Manager, Waratah

going direct from supplier to reseller, NRI streamlined the distribution process, making it more efficient and profitable for all parties: suppliers, resellers, and farmer customers.

Who benefited from National Rural Independents being formed?

The greatest beneficiaries of the NRI model are independent resellers of rural Australia—large and small—who invariably report a measurable lift in profit margins after joining the group. By pooling their collective resources through a central desk, NRI independents are better informed about commercial trading terms, more respected by rural suppliers, more competitive at the farm gate, more profitable, and ultimately more in control of their own destinies.

The second group of beneficiaries are the many suppliers to rural Australia. There is merit in rural suppliers having relationships with

many individual retail store managers around Australia as opposed to one or two relationships with a national purchasing manager of a large corporate retailer. The emergence of NRI helped restore balance to the merchandise market by returning a significant share to the hands of independents.

What is your professional background leading up to and including your current position?

Growing up on a farm in South Australia, I began working as a livestock agent with Southern Farmers in Penola in 1967. Soon after, I was given the opportunity to develop a new chain of retail outlets through western Victoria and the Wimmera-Mallee, taking on the established pastoral houses. I stuck at the job for 17 years, during which time we opened 18 rural stores.

In 1984, I joined a rural wholesaling organisation to assist in building its national network,

where I stayed for another 17 years, giving me a valuable insight into rural merchandising from a wholesaler’s perspective. In 2001, I was instrumental in the formation of the NRI group and was duly appointed group CEO. Fifteen years on, the NRI retail network has grown to more than 100 outlets nationally.

While working in wholesale, it became evident to me that independent resellers were a hardworking lot who made wonderful profits for wholesalers and third-party investors in agribusiness corporations.

As NRI independent in Coleraine Lachlan McDonald put it, “I was concerned about rural wholesalers becoming corporatised because the focus of paying rebates to stores as a reward for generating profits switched to paying dividends to third-party investors.”

I didn’t do tertiary study, instead honing my business acumen in the

university of hard knocks. I’ve worked in the rural industry for almost 48 years and, at 65, I’m not afraid to put in 18 to 20 hours a day to do what’s needed for the good of the group.

My greatest strength is being honest and upfront with people. I’m a people person; I can usually persuade others to my cause. I believe in one-on-one engagement with each and every shareholder and supplier to the NRI group.

It’s perhaps rare for CEOs to view their work as a passion or a hobby, but every day is a holiday for me because I love what I do. I’m happy to travel the length and breadth of Australia and New Zealand as and when required. I’m very hands-on in the way I manage our team of six staff. I like to follow through on group decisions to make sure the important things get done. I seem to have the knack of being able to bring individuals together to work as a team with high levels of cohesion, solidarity, >



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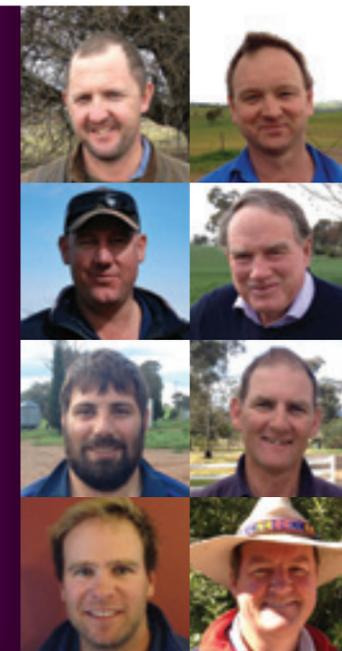
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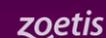
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1. Little PR, Hodge A, Maeder SJ *et al.* (2011) *Vet Parasitol*; 181: 180–93. 2. Zoetis data on file, 2014. 3. Startect product label 2014. 4. Leathwick DM, Waghorn TS, Miller CM, Candy PM, Oliver A-MB (2012), Managing anthelmintic resistance – use of a combination anthelmintic and leaving some lambs untreated to slow the development of resistance to ivermectin. *Veterinary Parasitology* 187: 285–294.



and trust. I'm well supported by executive assistant Wendy Rowe; we enjoy a professional relationship, having worked together for almost 20 years.

What are the key values and concepts that are paramount in NRI's business operations?

NRI was deliberately positioned in the premium sector of the market by applying strict selection criteria to independents seeking to join the group. We wanted large-scale professional resellers not afraid of innovation and the need to break with tradition. We sought like-minded people who were determined to be masters of their own destiny.

Cooperation is a core value of the group, giving us the negotiating, buying, and marketing power to compete with large corporations. Our cooperative ideals are also central to the way NRI shares insights and market intelligence. We work closely with our

suppliers in the forecasting of demand early in the season and the proper positioning of new products in all cropping and livestock markets we service nationally. At NRI, we understand that everyone in the supply chain needs to make a profit to be sustainable, so we partner very closely with our suppliers and our farmer customers.

The group employs technical people to advise farmers on crop and pasture production, animal health and nutrition, along with seed and fertiliser use. It's a complete package with local knowledge on climatic trends, soil properties, and profit expectations—something local NRI independents do better than anyone.

Knowledge sharing is something our shareholders value, particularly those who have come from a wholesale group where they were often kept in the dark about trading terms by their corporate

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'masters' in head office. Conversely, NRI practises total transparency of all supplier trading terms with shareholders. Another core concept of NRI is its total retail focus; we've elected not to go down the private label road, and we've opted to stay out of the contentious wholesaling sector of the merchandising market.

Finally, the group has a dual branding strategy so that shareholders can associate their local businesses with the national NRI brand, strengthening their market presence while also building linkage to a professional group with national buying power.

What have been NRI's proudest moments throughout its existence?

NRI did not need a bank loan to get started, just a working capital injection from its nine founders, which was repaid within three years. Being debt-free from 2004

to 2014, NRI has paid fully franked dividends of 5 cents to 20 cents, plus special dividends in good years, which are based on shareholder turnover through the group—an incentive to build loyalty.

Net asset backing has risen from \$1 per share at the group's inception to \$9.08 in June 2014. Its retail network has grown from nine founders to more than 100 outlets today. NRI has consistently delivered a return on shareholder funds of 18 to 20 per cent annually on an after-tax basis. More broadly, the independent sector has regained valuable market share, moving from around 40 per cent at the time of NRI's inception to about 50 per cent of the national farm input market today, estimated to be worth \$7 billion in annual sales. The success of NRI has attracted the attention of other independent retailers now struggling to compete with their bigger corporate competitors.

I am also proud of the fact that we have developed two sister companies, Indepet and National Rural Insurance Group, which are successful companies—perhaps a story for another day!

How has NRI managed to remain competitive in the rural retail space that was once dominated by large corporations?

The single biggest thing that NRI did to restore profitability for resellers was to cut out rural wholesalers and other middlemen from the rural supply chain. Of course, we could only do this by establishing a central desk from where our business managers could actively manage supplier relationships on behalf of the group.

Importantly, this is a collaborative process with our business managers working closely with regional groups of shareholders to determine which suppliers are



preferred for key modules in the ag-vet market, for example.

Our shareholder-dominated focus groups set the direction for product procurement, for example, developing a shortlist of preferred suppliers to guide our business managers who are charged with negotiating national trading terms. These focus groups operate in all key segments >

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- Grant McShane

Australia-wide, including broadacre cropping, horticulture, and animal health, giving NRI independents a unified voice in supplier dealings—as opposed to a lone voice in the wilderness.

The whole collaborative process has created a market intelligence network that’s unique and virtually impregnable—something corporate retailers struggle to do. We can make decisions quickly and change direction overnight if needed, again something that the corporates can’t do easily.

How has it grown and expanded over the years?

The NRI reseller network has expanded since 2001 mainly through membership growth: signing up independent retailers of a similar professional ilk to existing shareholders. Second, NRI has grown organically with many single-store operators becoming multiple-store networks. As the corporates have closed



stores they deem unviable, many NRI independents have opened new outlets in their place.

Third, the NRI group has grown by helping experienced talented sales people and agronomists to open new greenfield sites, often with ‘breakaway’ professionals and sometimes in partnership with established NRI independents. I have become something of a ‘marriage maker’ of business partners wanting to fill a service void in the market. And because NRI is steadily

growing while other groups are struggling, many suppliers are keen to engage with us, some even leaving their jobs to become NRI independents themselves.

NRI has a unique organisational structure. Can you explain how it works to provide an efficient and profitable distribution channel into rural Australia?

An unlisted public company, NRI Limited is cooperatively styled, limited by shares, with all

shareholders having equal status. The group is led by a democratically elected board of shareholders who can elect to have external directors on the board as well.

The concept of ‘one share, one vote’ is a far more enlightened approach to structuring a public company because it gives equal equity to all shareholders regardless of their size and market influence. This makes the NRI group very appealing to a whole new generation of ambitious and talented sales managers and agronomists, many of whom are cynical about the corporate model of command and control.

Is training and development an important focus of the company, and how does it invest in this?

As a group of independent resellers servicing every farming region of rural Australia—often working in isolation from each other—ongoing investment in training and development is crucial to NRI’s success. Training in the field of crop and pasture agronomy and livestock proficiency is paramount, given NRI’s focus on technical advice and service to support sales.

Business consultants are regularly engaged to host sales training seminars and financial management courses for NRI independents and their staff. More specialised seminars tackling commercial issues such as the firewalling of business assets and succession planning are also provided by expert speakers and business mentors.

In 2014, NRI completed a project on the future of communication between NRI independents and their key farmer customers, from face-to-face through to online engagement, and how that might change in the digital age.

How does NRI collaborate with key suppliers and retail partners to ensure success?

Every year, NRI hosts a major trade exhibition, bringing all



suppliers and shareholders of the three independent groups together under the one roof. The focus is on transacting business and building partnerships that grow and prosper over time. As such, these forums tend to have a carefully tailored learning component involving expert speakers, creative thinkers, and entrepreneurs.

During the season, additional meetings of a market-specific nature are hosted around the country for NRI independents with local suppliers. Supplier negotiations and product procurement are conducted on behalf of the group by experienced business managers from the NRI central desk.

Unlike some of our corporate competitors, NRI has opted not to pursue a private label strategy, which has enhanced our status with leading suppliers to rural Australia. Their respect for the NRI group is evidenced by the

strong partnership NRI has forged with leading rural brand names.

Waratah is one such supplier that works with NRI to fence in the livestock of rural Australia. Our partnerships with Zoetis and Virbac are helping us retain value in livestock markets by ensuring we have the right products to keep sheep and cattle healthy and productive. Similarly, Bayer CropScience and Adama are leading suppliers of farm chemistry to NRI’s grain-growing customers, and Philmac is the trusted brand NRI recommends when it comes to water reticulation and irrigation.

What is NRI’s vision for the future?

The broad vision of the NRI group of companies is to champion the global independent movement. The NRI vision is to decentralise wealth from rural merchandising to keep independent resellers and country towns viable. •

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