

NETCO Co-operative Ltd

“I have no doubt that NETCO will become one of the great co-operatives of this country. Its services are more necessary today than when it established over five years ago – our farming community will only benefit from its work which makes me confident it will flourish.”

The Hon. Gerry Peacocke
Retired NETCO Co-operative Ltd Director
Former NSW Member of Parliament

Who we are

NETCO Co-operative Ltd is the peak co-operative body that serves the interests of leading agricultural co-operatives throughout Australia. The NETCO group comprises 4,500 growers in Queensland, Western Australia, New South Wales and Victoria who in a normal season produce approx eight million tonnes of grain, or 20% of Australia’s production.

Owned, used and controlled by its member agricultural co-operatives, NETCO is the only co-operative in Australia with this “federal” structure and its rapid development over the past two years has aroused interest by industry, government and rural communities.

Established in 1997, NETCO aims for its group of co-operatives to be the pre-eminent supplier of grain marketing and farm input services to Australian farmers; it provides professional advice and support to its co-operatives to help them move toward this goal.

Collaborative advantage from linkages with other rural enterprises

At NETCO we believe working together means combined knowledge, more opportunities and better results. It is the philosophy that underpins all co-operatives and is written into our laws, rules and values.

NETCO’s operations are designed to achieve collaborative advantage from and for our agricultural co-operatives, who are based in rural locations across Australia. Members of NETCO are United Farmers Co-operative Company Ltd (WA); Capgrains Co-operative Association Ltd (QLD); Walgett Special One Co-operative Ltd, Gilgandra Marketing Co-operative Ltd, Australian Producers Co-operative Ltd, Mirrool Creek Grain Co-operative Ltd (NSW); Southern Quality Produce Co-operative Ltd (VIC). Below is a snapshot of how we do it.

1. Work together to reduce costs and gain efficiency

The NETCO group works together to keep the cost of transactions low so each business develops its competitive position. A major part of NETCO’s role is to look at ways the group can share resources or change processes to achieve this.

- Cost sharing – six of seven NETCO co-operatives are linked to a top-of-range combined grain contract management, inventory and accounting system housed in the NETCO office, which is accessed via a ‘virtual private network’ over the internet. The cost of such a system is prohibitive for most medium size businesses, but through NETCO, co-operatives can split the cost and access benefits of increased productivity and management information to a higher professional standard than was previously available.

In human resources, NETCO this year brought together two neighbouring co-operatives within the group who were seeking a new manager for their businesses. The co-operatives pooled their resources and with NETCO’s support they appointed a joint manager of greater calibre than they would have attracted working alone; the appointment is now bringing renewed drive in the development of both co-operatives.

On behalf of the group, NETCO runs an office in Japan which seeks to develop relationships with consumers of grain products and has been involved in a pilot program with support from the Federal Government’s Supermarket to Asia project to produce and market value-added grains for the Japanese market.

- Conversion of back office costs from fixed to variable – co-operatives can choose to pay NETCO a rate per tonne to undertake their grain marketing administration, which links their transaction costs directly to volume. Participants then avoid over or under staffing their business and can put more effort into their core activity of servicing farmers.
- ### 2. Transfer skills and knowledge across the group
- Because no one person or organisation can be a specialist in everything, NETCO facilitates the sharing of information, systems and processes across the group for the benefit of all.
- NETCO employs professionals who specialise in key disciplines of grain marketing, finance and communications who provide strategic advice and support to the group. This ‘business development unit’ allows co-operatives to harness the benefits of such human resources while sharing the cost.

- A co-operative (or employee) with skills or knowledge in a particular area can focus on that area for another co-operative or the entire group. United Farmers Co-operative Company Ltd has vast experience in Western Australia's fertiliser market, so NETCO helps apply their knowledge to co-operatives and markets on the East Coast. In another case, an experienced hay trader at Gilgandra Marketing Co-operative Ltd took on hay trading business last season for another co-operative who had less experience in that area – resulting in a better dollar return to both co-operatives and the customers served.
- NETCO helps the group smooth hikes in workload (typically over harvest) or when staff vacancies occur. With almost every co-operative trained in the same back office administration processes, staff can be seconded to a different co-operative and hit the ground running. Our *Graduate Trainee Program* trains young professionals in the NETCO office, followed by a series of placements in roles across the group (chosen on demand by co-operatives for their service).
- Key grain personnel across the group share information on market conditions and new opportunities that may be suitable for their co-operative or another within the group.
- To bring greater levels of corporate governance, compliance and fiscal management, NETCO is currently implementing minimum policy and procedures across the group, as well as standard internal audits and credit control.

3. Capture opportunities unique to a group approach

Working together brings many opportunities to NETCO co-operatives that could not be accessed working alone. It allows:

- The group to service large scale domestic and export clients while maintaining a strong presence in each co-operative's local market.
- Access to arbitrage opportunities unique to national organisations – grain sold by a NETCO member in one region could be delivered by the NETCO co-operative closest to the delivery site, which saves the cost of transporting grain and makes more profit for the co-operatives involved.
- More negotiating power – eight co-operatives and their 4,500 growers have more buying power than one co-operative or one grower alone. NETCO is involved in negotiating better deals on finance facilities required to trade grain as well as products for sale to growers (crop insurance and farm inputs).
- A louder voice – NETCO combines the voice of its co-operatives and growers by representing their interests to industry and government on issues that affect their livelihood. Over the past year NETCO has been frequently heard on issues relating to the structure of the Australian grain industry, current market conditions and developments.

- Career strategy – the group can offer a career path for professionals who may not be able to achieve their full potential in a small stand alone business. This allows the group to retain intellectual capital which is a key contributor to the group's development.

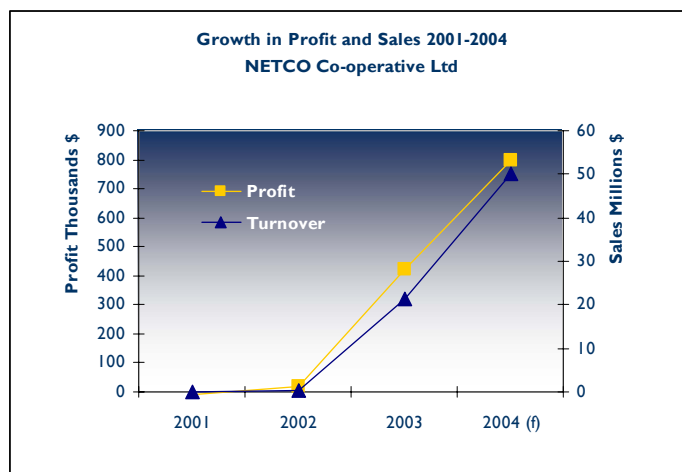
Demonstrates profitable market orientation and sustained sales up to \$20 million dollars per annum

NETCO and its members are commercially focused businesses formed under a co-operative structure. NETCO exists to help maximise profitability of its member co-operatives while running a profitable business itself.

A fast two years

NETCO's rapid development over the past two years – and similar forecast for years ahead – is testament to the existence of a market niche it has found. Financial years 2001 and 2002 were characterised by planning required to bring the NETCO concept to business reality, which was achieved in 2003. The trendline growth is set to continue as NETCO prepares for new access to East Coast coarse grain and oilseed markets upon their deregulation in September 2005.

Between 2001 and 2003 financial years, NETCO's profit before tax has increased from negative \$7,000 to positive \$420,000 with a projected \$800,000 for the current financial year. Sales turnover has increased almost exponentially from \$130,000 to \$21.4 million and is on track for a projected \$50 million this year.



Growth of the NETCO group between 2001 and 2003 financial years:

- The number of growers aligned to the NETCO group more than trebled, from 1,250 to 4,500.
- While the 2003 financial year's grain volume was marked by the drought, NETCO more than doubled group grain volume from 450,000mt to over 1 million mt in the year prior.

- Growth in the group's members' equity increased from \$3.9 to an estimated \$26.5 million .

Competitive advantage from rural location

A key strength of NETCO's structure is its ability to retain member co-operatives as independent rural businesses while harnessing the benefits of a national consolidated entity. NETCO co-operatives thrive on their local identity supported by effective communication with their farmer members which is only possible from the rural location in which they operate.

In addition to their commercial objectives, co-operatives are underpinned by principles that include care for their rural community – which independent research has shown is a key motivation for involvement in co-operatives.

Having a number of rural locations opens the door to unique opportunities for the NETCO group:

- National spread lowers business risk for farm insurance companies, so NETCO can negotiate better deals on crop insurance for its growers
- Particular grain marketing strategies including arbitrage
- National spread means NETCO is invited to comment on industry issues for the benefit of its members at a national level

Contribution to rural employment and development

Over the past two years NETCO's rapid growth has made a substantial contribution to rural employment and development: strong performance of NETCO equates to strong performance of the NETCO group, as the fruits of NETCO's achievement rest in the hands of its owners, agricultural co-operatives and farmers across rural Australia.

- Since July 2002, NETCO has increased from three to eleven staff, supported by financial performance which last year rocketed from previous levels. A rolling business plan is in place to guide similar growth over the coming years.
- NETCO played a strong hand in the development of new co-operative Southern Quality Produce Co-

operative Ltd which has made a healthy profit through the last drought-ridden financial year.

- NETCO established a *Graduate Trainee Program* to encourage talented young professionals with an interest in agriculture into the industry and give them the training they need to become the managers and leaders of tomorrow. Three graduates are currently enrolled on the program and NETCO will be looking to recruit more each year as the group grows.
- NETCO established the *Rural Leader Scholarship* to encourage development of future leaders among the farming community. The scholarship provides funding for growers to attend post farm gate industry conferences, events and courses because we believe such education is imperative for growers to maintain influence on post farm gate activities that directly affect their livelihood. This month growers from WA, QLD and NSW were funded to attend the Agriculture Australia Conference in Melbourne where they met and heard industry leaders speak on current affairs in post farm gate industry, and were officially awarded the scholarship as part of conference proceedings.
- NETCO sponsored research on the structure of the Australian grain industry to ascertain issues and potential solutions that would benefit growers. Findings of the resulting *Kronos Report*, which include a calculation that wheat growers would be \$9.33/mt better off under a competitive supply chain, have been a major focus of industry debate since their release last November. NETCO's public profile rose dramatically as a direct result of the report's release and the Co-operative has become a regular source of opinion in public debate on industry issues.
- NETCO is involved in planning the future landscape of the Australian grain industry for the benefit of our co-operatives and growers. Over the last year, NETCO made a submission and was heard at a Commonwealth government Senate inquiry into wheat marketing; were involved in industry planning sessions with peak grower bodies the Grains Council of Australia and Grain Growers Association; presented at industry conferences (NSW Farmers Association annual conference and the Grains Trans Summit and is a member of the National Agricultural Commodities Marketing Association (NACMA).
- NETCO is involved in advocating the role of the co-operative approach to business and is a member of the NSW Federation of Co-operatives, to which, on invitation, NETCO's CEO has been appointed a director.