

BUSINESS VIEW

FEBRUARY 2015

Australia



National Australia Bank

*Operating its way through
a "challenging year"*

Keeping the Country Productive

The Australian logistics industry



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FRANCHISE COUNCIL OF AUSTRALIA

The Franchise Council of Australia Limited (FCA) is the peak body for the \$144 billion franchise sector in Australia, representing franchisees, franchisors and service providers to the sector. Membership of the Franchise Council of Australia is voluntary, and is open to any organisation or individual involved in the franchise sector, including franchisees, franchisors, lawyers, accountants, banks, consultants, academics, and publishers.

OUR GOALS ARE TO

- Create initiatives for the FCA and franchising community;
- Focus on and influence FCA policy on key issues relating to women in franchising;
- Provide genuine opportunities for contribution, networking and professional development; and
- Promote the success of women in franchising within the franchise sector and to the broader Australian business community.

Editor's *Note*

Welcome to the January issue of Business View Magazine, a global leader in business-to-business profiles, news and opinion – whose mission is to detail the inner workings of today's most influential companies through direct one-on-one contact with their key decision-makers.

As always, our coverage touches a broad range of industries.

Informative features in this month's edition include coverage of bounce-back efforts for National Australia Bank, a financial services organization with more than 42,800 employees – operating more than 1,750 stores and business banking centers – and more than 529,500 shareholders.

The group's main operations are based in Australia, with interests in New Zealand, Asia, the United Kingdom and the United States. The group aims to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

The additional provisioning for UK conduct related matters helped make 2014 a challenge, combined with capitalized software and deferred tax asset (DTA) provisions was disappointing. However, these issues are being dealt with transparently and appropriately, and the underlying performance of the group remains strong.

The group continued to better align the busi-

ness to the changing economic landscape and customers' evolving needs. It continues to focus on enhancing the core Australian and New Zealand franchise. At the same time the group continues to manage its international portfolio for value.

Check out the full-length banking piece as well as other feature stories in this month's issue, including pieces on the franchising expansion plans of the Hooters restaurant chain and BHP Billiton's demerger plans that include creation of an offshoot enterprise called South32.

Please feel free to contact me with any comments or critiques, as well as suggestions for ways we can continue to provide a publication that's pertinent, educational and entertaining.

Until February... I wish you good health and good business.

Regards,



Stuart MacAdam
Business View Magazine Australia



Why Australia?

Because it's open for business

With solid economic credentials and a positive outlook for growth, Australia is a great place to do business.

Australia's strong economic growth, highly skilled workforce and world-class research and development (R&D) capabilities create a wide range of investment opportunities. The country is well into its 23rd consecutive year of annual economic growth and its average real GDP growth from 2013 to 2019 is expected to exceed all other major advanced economies.

Although Australia is known worldwide for its mining industry and abundant resources, its predominantly services-based economy consists of numerous globally significant industries, many of which are growing in size and reputation.



Australia's trade, investment and cultural links with the fast-growing Asia-Pacific region are a major reason for its ongoing growth. Australia also has well-established links with traditional trading partner nations and a status as one of the world's most transparent and well-regulated business environments. For investors, there is no better place to do business.

Australia's economic resilience and potential provide a safe, low-risk environment in which to do business.

Over the past 22 years, Australia has experienced economic growth at a real GDP average growth rate of 3.4 per cent per annum, unmatched by any other major advanced economy.

This growth is largely driven by Australia's position within the booming Asia-Pacific region and its strong economic foundations and globally significant industries, including agribusiness, education, mining, tourism and wealth management.



The country's economy is much more than mining and resources, with almost 80 per cent of economic output generated by the services sector. Growth in the Australian services sector is also outpacing the all-industries average. Australia is rated triple 'A' by all three global rating agencies and enjoys levels of net public debt that are among the lowest in the OECD.

Australia is a world-class innovation destination, built on solid foundations of modern ICT infrastructure, high levels of investment, generous R&D tax incentives for businesses and strong intellectual property protection.

Australia's research institutions have enhanced the nation's reputation for innovation by delivering high-quality research outcomes, and increasing R&D contribution and collaboration both domestically and internationally.

Robust economic performance over the past two decades has also encouraged Australian businesses to invest strongly in R&D.

This has helped Australia develop an impressive track record of world-class outcomes and capabilities. Importantly, the country also provides numerous R&D collaboration and technology investment opportunities for international partners.

The Australian labour force is one of the most educated, multicultural and multilingual in the world. Investors can access highly skilled, innovative workers who are equally at home in both Western and Asian cultures.

Around 40 per cent of Australia's workforce holds a tertiary qualification or advanced diploma, and more than a quarter was born overseas.

Australia's education system ranks in the global top 10. The country's world-class universities attract students from across the globe and produce high-quality research outcomes.

Growth in labour productivity continues to outpace labour costs. Labour productivity growth in terms of GDP per person employed within Australia is also expected to outperform many other developed economies in 2014.

Australia is geographically close to and has long-standing trade, investment and cultural links with the fast-growing Asia-Pacific region.

Ten of Australia's top 12 export markets are within the Asian region. Australian businesses have been trading with Asia-Pacific companies for more than half a century and understand these markets, offering the benefits of experience and established



trade and investment ties.

This has helped position Australia to play an important role in the region's ongoing development. Australia remains a top destination for foreign investment and for overseas visitors.

Australia also provides a useful bridge across the world's major time zones, offering 24-hour access for global organisations and a quality of life that is well regarded around the world.

Doing business in Australia is easy. With one of the most transparent and well regulated business environments in the world, Australia's political stability and regulatory framework provide investors with confidence and security. For six years in a row, Australia has ranked third on the Index of Economic Freedom.

The country has a sophisticated financial sector that offers access to the world's third largest pool of investment funds and one of the region's largest pools of bank assets.

More than 18,000 foreign companies are registered in Australia, including 18 of the Top 20 FT Global 500 companies and eight of the Top 10 Fortune 100.

The Australian Trade Commission – Austrade – contributes to Australia's economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

- develop international markets
- win productive foreign direct investment
- promote international education
- strengthen Australia's tourism industry
- seek consular and passport services.

Austrade helps companies around the world to identify and take up investment opportunities in Australia as well as to source Australian goods and services. Our assistance includes:

- providing insight on Australian capabilities
- identifying potential investment projects and strategic alliance partners
- helping you to identify and contact Australian suppliers.



National Australia Bank

Operating its way through a “challenging year”

National Australia Bank Limited is a financial services organization with more than 42,800 employees – operating more than 1,750 stores and business banking centers – and has more than 529,500 shareholders.

The group’s main operations are based in Australia, with interests in New Zealand, Asia, the United Kingdom and the United States. The group aims to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

In 2014, the group operated the following divisions:

- **Australian Banking offers** a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia’s largest institutions. Australian Banking comprises the personal and business banking franchises, fixed income, currencies and commodities (FICC), specialized finance, debt markets, asset servicing and treasury;
- **NAB Wealth** provides superannuation, investments and insurance solutions to retail, corporate

and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia;

- **NZ Banking** comprises the retail, business, agri-business, corporate and insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand. It excludes BNZ's markets operations; and

- **UK Banking** operates under the Clydesdale and Yorkshire Bank brands offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centers, direct banking and broker based channels.

- **NAB UK CRE** portfolio business was created on Oct. 5, 2012 with the transfer of £5.6 billion of commercial real estate loan assets from Clydesdale Bank plc (Clydesdale Bank) to the company, managed via its London branch.

2014 was a challenging year for the group. The additional provisioning for UK conduct related matters, combined with capitalized software and deferred tax asset (DTA) provisions was disappointing. However, these issues are being dealt with transparently and appropriately, and the underlying performance of the group remains strong.

The group continued to better align the business to the changing economic landscape and customers' evolving needs. It continues to focus on enhancing the core Australian and New Zealand franchise. At the same time the group continues to manage its international portfolio for value.

In Australia, the group has now fully implemented an integrated and simplified operating model that aligns the organization to the external environment and evolving customer needs. The model features:





- More streamlined customer management divisions focused on managing and growing customer relationships;
- A single product house to effectively coordinate and manage all product offerings and drive innovation;
- A centralized operation, shared services and transformation division to drive greater scale and efficiency, and delivery of business-wide transformation; and
- Centralized support divisions, bringing together risk, finance & strategy, people, communications and governance, to remove duplication and promote greater consistency.

Highlights of progress toward meeting 2014 strategic priorities include:

Focus on the core Australian and New Zealand franchise

The group focused on enhancing the Australian and New Zealand franchise by strengthening its relationship with customers in a number of ways during the year. For example, NAB Connect was upgraded with enhanced functionality to provide better direct rela-

tionships with customers. In business banking, centralized metro and regional fulfilment centers have been created to support improved customer relationships, while BNZ continues to focus on its mission of “Being the Bank for New Zealand” by helping New Zealanders be good with money.

The group introduced 98 wealth advisors across the Australian banking network, providing professional advice and meeting the needs of banking customers.

The group also continues to focus on improving cost and efficiency – optimizing the core business and providing customers with a better experience. Examples of simplifying and digitalizing the business include:

- Rebranding broker originated mortgages from Homeside to NAB to leverage the strength of the group’s main brand and reduce complexity;
- Upgrading the Australian Banking payments infrastructure to enable intraday settlement;
- Consolidating a number of product information databases into one, enabling staff to serve custom-

ers more quickly, and in turn drastically reducing both the number of branch support calls to customer contact centers and the average length of calls; and

- Rolling out of another two NAB “Smart Stores”- interactive and intelligent branch formats in which customers can either use the self-service channels on site, or be supported with help, guidance and advice from a NAB staff member.

On the digital front, the group continues to drive resilience and capacity upgrades across its digital channels to support the rapid uptake of digital services by NAB customers. Mobile Internet banking logins have increased by more than one third since 2013.

Manage International Portfolio

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with historical redress issues in relation to payment protection in-

surance and interest rate hedging products, which negatively affected the results of the group during the year. Excluding these impacts, the returns in UK Banking improved in line with the economic growth in that region. The NAB UK CRE portfolio is being wound down in an orderly manner, with a \$3.2 billion reduction in 2014 that was a function of run-off and the sale of part of the portfolio.

Similarly, the run-down of the Specialized Group Assets (SGA) portfolio continued in 2014, with total assets contracting from \$17.4 billion as at September 2009 to \$3.3 billion as at September 2014.

On Oct. 15, 2014, the group sold a minority stake (31.8 percent) in US-based Great Western Bancorp Inc. through an initial public offering of shares in the U.S. The group plans to sell 100 percent of Great Western Bancorp Inc. over time, subject to market conditions.





Keeping its Country Productive

The economic significance of the Australian logistics industry

The efficiency of Australia's Logistics industry is vital to the nation's productivity and wellbeing.

Measures of the economic significance of transport are reported by the Australian Bureau of Statistics but they significantly understate the expenditure on Logistics because they do not record these services when they are undertaken by firms on their own account and they fail to capture logistics activities not directly related to the movement of physical goods.

ACIL Allen has made an estimate of the true size and impact of Logistics in Australia and estimated that

Logistics employs 1.2 million people and added \$131.6 billion dollars to Australia's economy in 2013. This represents 8.6 per cent of the nation's GDP in 2013.

Every industry in Australia depends on transport

and logistics to some degree. Low cost transport and logistics allows Australian exporters to profitably reach key markets, helps Australian manufacturers to keep cost-competitive in the face of cheap imports and enables firms within Australia to compete over a larger area, bringing lower prices and greater choice to consumers. Using Computable General Equilibrium ACIL Allen has estimated that a 1 per cent improvement in the efficiency of this industry generates \$2 billion of gains to the economy each year.

There are risks to the efficiency of Logistics in Australia, for example urban congestion, inefficient regulation, an ageing workforce and difficulty in identifying and investing in infrastructure because of financing and planning constraints.

Australia's system of national accounts measures the economic impact of an industry called Trans-



port, Portal and Warehousing which includes transport, postal services, warehousing and other transport support services offered to customers across all industries in Australia.

By only recording transport services offered to third parties (called 'Hire and Reward' services) the national accounts miss a significant amount of freight transport that is carried out by companies on their own account (so called 'ancillary transport') and which is allocated in the national accounts to the primary industry of those companies.

Even including ancillary transport leaves an industry definition that is very narrow and misses many of the logistics activities that must be undertaken to bring goods to customers. There are many possible definitions of logistics, but a definition which has been adopted for this analysis is:

Logistics management is that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of con-





sumption in order to meet customers' requirements. Council of Supply Chain Management Professionals, 2014

Under this definition there are clearly many more tasks to logistics than the transport task. The Transport, Postal and Warehousing industry definition fails to capture these logistics activities except the physical movement and storage of goods.

The logistics industry encompasses the transport industry (including ancillary transport) to define and quantify the Australian Logistics (Logistics) industry and capture the economic activity undertaken by firms across Australia in managing and operating their supply chains. This definition represents the costs of Logistics borne by Australian industries and represents the overall significance of the true Logistics industry.

The Logistics industry affects every industry. Australia is a large country and one which is geographically isolated from many key international markets. The efficient movement of goods and information along the supply chains of Australian companies is central to Australia's ability to compete in international markets, and to compete with imports to the domestic market. Efficient logistics allow suppliers to compete across a larger distance, enabling greater competition within the country and resulting in benefits to consumers.

'Productivity' is what goods and services an economic actor (business, government, state, nation, etc.)

receives for what it 'puts in', in terms of labour, capital and other factors of production. Productivity growth is a critical element in delivering an enhanced standard of living, meeting environmental

obligations and coping with population growth. In the decade to 2011 Australia's productivity growth stagnated, averaging below one per cent per annum over the 9 years to 2010/11. This means that over that time period economic growth was mostly generated from increases in population and labour participation, and Australia's increasing wealth was driven largely by a favourable movement in the nation's terms of trade. In the past two years productivity has been double the average over the preceding nine years with economic conditions leading to a period of relative restraint in wage claims, however this performance cannot be guaranteed to continue.

Logistics is a critical element in the productivity of the nation. The true Logistics industry is estimated to represent 8.6 per cent of the nation's Gross Domestic Product, it is a significant cost in Australia's bulk export trades, and Australia's significant import of manufactured goods means that efficient supply

chains from ports to customers are essential for ensuring that consumers of imported goods are receiving the goods at the lowest possible prices.

There are challenges to the efficiency of the Logistics industry. Fuel prices remain high, regulatory burdens to the industry have increased and state and national regimes overlap, as do the scopes of different regulatory agencies, creating costly duplication and confusion. Urban congestion is slowing the nation's roads and hindering pick-up and delivery activities for all modes of transport. Urban encroachment is hindering planning approvals and development of necessary infrastructure, including: railways, roads, airports, port expansions and inter-modal facilities.

The Australian Logistics Council's focus is to improve the productivity, efficiency and safety of the freight logistics industry.





bhpbilliton

resourcing the future

New company to be named South32



The new company BHP Billiton intends to create through its proposed demerger will be called South32.

The majority of South32's selected assets are located in the southern hemisphere with its two regional centers – Australia and South Africa – linked by the 32nd parallel south line of latitude. The company's name represents this footprint and its regional approach to managing its operations.

Graham Kerr, chief executive officer elect of South32, said "The naming of South32 is a major step in the setup of our company. Our heritage and the places in which we operate are an important part of our identity. While South32 is grounded in the southern hemisphere, we will retain our global reach and ambition as we seek to exceed the expectations of a global shareholder base. The diversity of our employees, commodities, customers and communities will give the new company great strength, which is represented by the woven pattern of our logo.

"Many of our assets are among the most attractive in their respective commodities and all have benefited from BHP Billiton's structured approach to improving safety and performance. As we move to a regional model and develop a fit-for-purpose strategy, we have the potential to further improve performance. This would enable South32's assets to reach their full potential and benefit our shareholders, employees and communities."

Kerr said that a wide range of options had been considered when selecting a name for the company, including suggestions from employees across BHP Billiton.

"As we continue to build South32 we are keen to ensure the views of our people are woven through the foundations of the company," he said. "I am proud to say that a suggestion from one of the new company's employees was the basis for the name we



have selected as our identity.

"The demerger remains on track to be completed in the first half of the 2015 calendar year. Following the recent announcement of additional members of our experienced and high caliber senior executive team and the third party approvals already achieved at this stage, we are progressing well against plan."



South32's head office will be in Perth, Australia, with a regional head office and global shared services center located in Johannesburg, South Africa. South32 would be an Australian incorporated company but, reflecting a global shareholder base, is intended to have a primary listing on the Australian Securities Exchange, a secondary listing on the Johannesburg Stock Exchange and a standard listing in London.

A final board decision on the proposed demerger will be made once all necessary third party approvals are secured on satisfactory terms. On this basis, BHP Billiton expects to release all shareholder documentation with full details of the proposed demerger in March 2015, with a shareholder vote taking place in May.

One Billion Tons to China

BHP Billiton celebrated the shipment of its one billionth ton of iron ore to China with customers, industrial associations, joint venture partners, suppliers

and employees in Shanghai.

BHP Billiton's chief executive officer, Andrew Mackenzie, was joined by President (Iron Ore) Jimmy Wilson, President (HSE, Marketing and Technology) Mike Henry, President (Coal) Dean Dalla Valle and guests to reveal a commemorative plaque to mark the milestone.

Mackenzie said BHP Billiton, a leading global resources company, was proud to contribute to the important trading relationship between China and Australia and to the country's steel industry.

"China is of immense importance to BHP Billiton and to Australia," he said.

"We always strive to develop closer ties with China and contribute to its development by providing long-term, reliable and high-quality products at a transparent market price. BHP Billiton is very proud of the role it has helped play in China's remarkable economic and urban growth through the trade in iron



ore and other commodities. The rate of this growth, and the demand for iron ore, has been unprecedented.

“It took nearly 30 years for BHP Billiton to ship 100 million tons of iron ore to China and then only 12 more years to reach the one billion ton milestone.”

Also speaking at the celebration event, Henry acknowledged China’s extraordinary development over the past two decades and the transformational role the country’s demand had played in the global iron ore market.

“Thanks to China’s tremendous achievements in manufacturing and steelmaking, part of the iron ore we export comes back to Australia as high-quality in-

has evolved beyond the two-way trade in raw materials and industrial products with the launch of the physical iron ore transaction platforms in China and Singapore in partnership with steel mills, traders and producers,” Henry said.

With China accounting for nearly 50 per cent of the world’s total steel production, Wilson recognized the nation’s contribution to the development of the Pilbara in Western Australia.

“Chinese demand growth has supported a trebling of BHP Billiton’s iron ore production over the last two decades,” he said.

“We are grateful for our long-term and mutually beneficial partnership with China. Our iron ore has



frastructure and equipment,” he said. “The resources industry now relies on bulk materials handling machines, transportable buildings and rolling stock made in China.”

BHP Billiton’s iron ore journey with China started more than 40 years ago with the first shipment of iron ore from Port Hedland to China in 1973.

“The relationship between BHP Billiton and China

played a part in the country’s development, and in turn China’s rapid growth has transformed the Pilbara iron ore mining industry to the benefit of Australia. Over the past decade, we have invested US\$25 billion in our Western Australian mines, rail and port infrastructure to deliver the high-quality iron ore needed by our steel-making customers in China.”

BUSINESS VIEW Australia

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