

Marketing And Winning Sustainable Work For SMEs
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1. INTRODUCTION

The organisers of ENVIRO 2002 and EBA must be congratulated on finding a space for Australian SMEs in this conference.

The environment business in Australia is dominated by SMEs in terms of actual numbers. Harnessing the collective horsepower of the SME's is Australia's greatest challenge if SMEs are to play a long-term role in maximising national and international business opportunities. The recent Federal Government Industry Action Agenda and the follow-on work being undertaken by the Barton Group addresses this very issue. I urge SMEs to become familiar with the work, consultations and workshops of the Barton Group – they will find the network alone to be of value. Pamphlets describing the work of the Barton Group are available at the top table for your collection.

My task today is to address the topic "Marketing and Winning Sustainable Work for SMEs". Some of my SME colleagues see me as one of the "grandfathers" of the Australian environment business but I cannot preach how such marketing and winning might be done in specific ways nor speak on behalf of other SMEs in this sector. I can only tell the ESI story or "ESI's Case-History". What I will say is essentially my "view from the ridge".

Environmental Solutions International Ltd, or ESI, is one of the better known and I believe respected SMEs in the sector. We have been modestly successful. From this vantage point perhaps there are some worthwhile comments I can share.

Whether some of the hard-won experiences of ESI are directly transferable to other SMEs, can only be judged by the individual CEOs of these SMEs. ESI is a public company and hence our reporting and some other obligations are different to those found in privately owned SMEs.

So that you understand where I am coming from I will provide a very brief "helicopter view" or "snapshot" of ESI. Our website www.environ.com.au contains information on the company's processes, technologies and attributes of most of our senior technical staff. At Stand No. C184 in the Exhibition Centre you will find more comprehensive technical details as well as being able to meet many of our senior staff.

2. HELICOPTER VIEW OF ESI

Refer to Powerpoint "ENVIRO 2002". ESI has a balance sheet that will allow it to be a prime contractor for projects having a capital value of around \$15m.

3. FEATURES THAT HELP WIN SUSTAINABLE WORK [Stakeholders slide]

ESI's success in winning sustainable work is the direct result of our staff identifying and creating new opportunities to work with other, usually more powerful stakeholders in the environment business. Such stakeholders include:

- Large Australian construction/engineering companies
- Large foreign water companies
- Government Business Enterprises (GBE)
- Traditional Consultants to Clients (Asset Owners)
- Customers themselves
- Investment Market (analysis, stockbrokers, dealers, fund managers).

4. ESI AND LARGE CONSTRUCTION/ENGINEERING CORPORATES

Factors that have assisted ESI in winning work with many in this group, and allowed us to participate in larger projects than we could have done alone, include:

- Our staff having the skills to conceive, and courage to enter into technology supply arrangements with large corporates that have a genuine lack of internal process and operational know-how. Consultants traditionally sold the technical solutions to such contractors.
- Our staff being able to convince these large corporates that ESI's process know-how will bring a competitive bidding advantage; is exclusively available to them; is from an Australian company; is in-house, and not hired in on a project-by-project basis.
- Our staff having the ability to table defensible operational data from plants that we have previously designed or are operating.
- Our staff being able to convince the ultimate customers that the people ESI brings to the partnership will deliver as promised (the contractor alone cannot do this).
- A high degree of flexibility within our staff to work in JVs, partnering, alliancing or other structures and relationships (as distinct from being a sub-contractor). This sometimes means placing at risk either or both of ESI's project profit and overheads.
- Our willingness to share risk through provision of ESI process performance guarantees for the scope of work we control.
- Our demonstrable ability and willingness to enter into "hard money" operational contracts following completion of construction. (Shows faith in our design and processes).
- Our staff's understanding of and ability to manage the cultural, organisational differences and frequently bureaucratic practices found in many large corporates (we have learned we can rarely change these practices so we don't waste much energy on trying).
- Finally a number of our senior staff are prepared to act as mediator between customer and contractor if and when "things go wrong" or "process results are slow to emerge". We have done this successfully on more than one occasion.

5. ESI AND GOVERNMENT BUSINESS ENTERPRISES (GBE)

All Australian public sector water enterprises (large and small) continue to undergo substantial restructuring. It is now more driven from within rather than by external political agendas. It is my view this will continue, because:

- self preservation is a strong human trait
- licences to operate will not be automatically renewed
- there are a number of foreign water entities and some large local private sector entities that would not mind having a slice of the substantial ongoing revenue streams.

Hence the drive by GBEs to be more commercially and customer focused; parochialism being alive and well; the inevitable impact of competition policy on access to operating licences; the departure of much of the GBE's internal process/design know-how and the discernable increase in "contracting-in" specific "non threatening" expertise, all provide new positioning opportunities for SMEs. SMEs are not perceived as a threat to licences, are not seeking access to networks, or to operational contracts for major plants.

ESI has positioned itself by building-up and retaining a very high level of process skills to improve operational performance of existing plants, control systems and networks.

This is very much niche marketing by our staff.

ESI's move into Process Control/Plant Automation provide a good example of building on existing relationships and insider knowledge accumulated by our staff.

6. SMES AND FORMATION OF STRATEGIC ALLIANCES

The formation of strategic alliances is a very powerful mechanism for SMEs wishing to commercialise an emerging technology. These alliances are not "grant", "government" or "tax" driven. Instead they are market forces at work – the SME champion of the technology needs

money and other horsepower. The large corporate brother has the resources to meet this need, if the “fit” is mutually advantageous.

ESI staff have been successfully involved in a number of strategic alliances e.g. BHP, MELCO, SNC-Lavalin, Clough Engineering, Halliburton, etc, etc.

ESI has benefited from such “David/Goliath” alliances because:

- Our staff have always refused to be swallowed by “Goliath” in the early days of courtship. They have always remained as the champions of the process/ technology yet learned quickly to tap the greater resource of expertise available.
- Our staff have never underestimated the value of what they bring to the partnership – marketing ability, courage to cut through red tape both within and outside large corporates, profit orientation at individual level, sensible risk-taking, coalface knowledge of the distinction between endless R&D and commercialisation, specialist technical skills, community interface knowledge – some of which are “strange behaviour” for many people employed in large organisations.

7. ESI, SUSTAINABLE GROWTH AND INSTITUTIONAL INVESTORS

ESI’s business is the smart use of knowledge for the treating and processing of specific wastes. We have made this decision for better or worse. We believe we have chosen correctly. But will this attract the attention of the investment community? I believe yes, if we accept a few fundamental axioms relating to institutional investor behaviour. My experience of running a public SME in Australia tells me that the following five points can only be ignored but at our peril:

- First, institutional investors tend to analyse larger companies as part of the process of determining where their funds will be allocated. Thus they will invest a certain % of their funds in companies positioned relative to the overall growth in the economy, or in particular sectors, based on assessment of the growth prospects of these sectors. The growth strategy of an individual company is a poor third.
- Second, the investment market has an in-built bias towards short-term results, with the consequent tendency to downgrade the importance of long-term growth strategies and stories. Even though fund managers try to balance out their investments between short-term returns and long-term growth stocks, they invariably find themselves concentrating on the short-term stocks because they are judged at the end of the year on their returns.
- Third, when there is a rise in the price of a large company’s shares, it usually reflects cyclical or short-term judgements by the market on particular sectors or the overall economy. Differences in P/E ratios reflect the market’s assessment of the long-term growth picture. But, these differentials are based on historical (not growth) performance. This possibly explains why it is very difficult for a company with a low P/E to achieve a re-rating by bringing a new growth story to the market. The P/E ratios have been there for a very long time.
- Fourth, it is difficult (but not impossible) to change the market’s perception of a company’s growth prospects.
- Fifth, it is clear that some growth stories do appeal to the financial markets and some companies are punished for not having convincing growth stories.

Some of these “axioms” may seem not to be compatible with each other. Perhaps “that’s life”.

Using these five guideposts, I suggest it is necessary for a public SME to behave in a particular manner in order to achieve growth, and capital for growth. ESI’s approach is really straightforward and simple:

Firstly, we work to convince investors, ESI’s growth is not likely to be volatile. Bad surprises benefit no one.

Secondly, we work to convince investors that they can take advantage of the quality of the Board, the management, related technical marketing and project delivery expertise of our staff and that we have superior processes and technologies.

Thirdly, we work to convince investors that we too are uncomfortable with long-term financial predictions and we know and accept that they take a dim view of unjustified or unmet forecasts. Given the vagaries of forecasts, for us to predict beyond 24 months is to take a risk with our share-price performance. We don't wish to do this.

Fourthly, we work to convince investors that the ESI story does not have holes in it. I know this troubles investors. But it comes back to the quality of the Managing Director and staff and whether their story is likely to come true. It is a subjective process assessing the difference between a good and bad Managing Director. It is important that both the story and the Managing Director and staff are genuine believable and consistent. My own guiding light is to understate and over-perform wherever possible – everybody likes upside surprises.

Fifthly, we work to convince investors that we are acutely aware that the key to getting and retaining investor support is to have a good sense of what fund managers are looking for eg:

- important not to shock the market
- not to give any negative surprises
- make sure the market is fully informed (at good and bad times)
- have the ability to produce management accounts, realistic business plans, audited financial statements, to support presentations/road shows (if requested).

Sixthly, we work to continue improving ESI's ability to present itself to new, potential investors. Fund managers lose patience, exit sectors at short notice, or come under pressure from their shareholders/clients to exit particular stocks or sectors. The Australian "renewable energy stocks" is an example. The recent increased interest by "ethical funds" and "socially responsible funds" in the environment sector is also an example of this requirement.

In summary, SMEs have special hurdles to jump when marketing themselves, and looking to win sustainable growth but with the correct selection, and personal growth and commitment of staff, and corporate involvement in state and national initiatives (e.g. The Barton Group), these hurdles can be jumped. I trust my "view from the ridge" comments will assist.

Thank you.