HORWOOD BAGSHAW TURNS THE CORNER

Author: By ALEX KENNEDY
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In December 1987, Horwood Bagshaw, Australia's oldest farm machinery manufacturer, based at Mannum on the Murray River in South Australia, was placed in receivership. At the time, it was described as insolvent and with no prospect of survival. Today, the company is on the way back, focused and scaled down. It is now the sole surviving Australian manufacturer of harvesting machinery, and a "unique business turnaround case study", according to its former receiver-manager, Stephen Young of Arthur Andersen.

In the past six months Horwood Bagshaw has sold 50 pieces of farm equipment, each costing between $60,000 and $125,000, compared with 12 sales in the previous financial year. Its turnover has increased from $3.2 million to $7 million. The firm has also diversified and acquired general engineering contracts with British Aerospace, Telecom, and the automotive industry, and this month it will start making two Tyson water turbines a day. The $10,000 turbine is a floating device that uses an eight-bladed turbine and natural river flow to generate electricity or pump water for drinking and irrigation.

Already more than 2000 companies and agencies, most of them based overseas and impressed by the simplicity and cost of the almost maintenance-free turbine, have registered interest in purchases. Among those to have shown interest are aid agencies, church mission posts, Unicef and the World Bank. Phone calls and letters saying "just send us one" have come from South America, Canada and Papua New Guinea.

Since May last year the company has been a wholly owned subsidiary of FAI Insurances, previously its largest creditor, which was owed about $30 million. FAI, which had owned 39% of Horwood, appointed receivers and managers after the company reported a loss of $7.78 million in the year to June 30, 1987 and lost a further $4 million in the following five months.

FAI's corporate services executive, Bob Wheeldon, is chairman of Horwood's management committee. "We took a long-term view that the company could turn round," he says. "Then by 1991 it seemed clear that it could go no further in receivership. It had managed to pay us back a substantial portion of our previous exposure so we acquired the company for $6 million. It hasn't let us down."

Horwood Bagshaw's chief executive officer, Peter Murray, joined the company in 1976, but left in 1984 in thinly disguised disgust at its lack of direction. He was asked to return in July 1987 when the company was celebrating its 150th birthday, and has steered it through the past five years to "line ball now, with a fair way to go". He says: "I'll be happy again when we're very profitable. I still say we take each day as it comes. The fight isn't over yet."
According to Murray, and Arthur Andersen's Stephen Young, the company was stale with rigid ideas in 1987. It was overstaffed and its management team claimed to have little say in its operation. The company had ignored market trends and continued to produce machinery despite low sales. As a result, huge quantities of stock lay all over the country. Its corporate expenditure had become increasingly extravagant, creating even deeper debt. But both men considered that, against all the odds, it could be saved, and they were in agreement on how it could be done. Young had a rural upbringing, which he says gave him an affinity with the firm's products, and a rapport with staff. Murray says simply that his heart was always in the company and he was prepared to fight for its survival.

Working closely with FAI, which Murray says "gave us enormous support, allowed us time, believed in us and exerted no pressure" the two men set about rationalising Horwood. The decisions were tough and immediate. Staff numbers were reduced from about 160 to 30 (they have now risen to 58 and the turbine production is expected to keep increasing steadily to 100 by next year.)

Young believes that two immediate marketing initiatives went a long way to turning around the company. "Horwood, for some reason, had its own retail outlets across the country, in competition, and naturally creating animosity, with independent farm machinery dealers," he says. "We closed all the outlets and started using the dealers. It was a huge saving (an estimated $3 million)and dealers no longer had the manufacturer competing so they had confidence in handling the machinery. We then decided to sell to farmers through dealers, rather than to the dealer himself. In other words, the dealer could have our stock on the floor but it wasn't paid for until the farmer purchased it. It removed the ill will to the company if a machine didn't move off the floor and it gave dealers security to display and sell the equipment. Horwood needed dealers to support it.

"As well, we increased our warranty from between three to 12 months on various machinery to a blanket two-year warranty on everything, and we allowed farmers 12-months interest-free terms. The company had to be seen as staying around. If farmers or dealers thought it would close, the machinery would not sell. We built trust."

But Horwood was fighting for its life as the downturn in the rural economy worsened with falling commodity prices and a rising dollar resulting in a dramatic fall in demand by cereal producers for equipment. The market for headers in Australia, which had been more than 2000 a year in the 10 years to 1985, fell to less than 350.

Early results under receivership suggested that the company was headed in the right direction. In January 1988, the company's first month in receivership, sales were 30% higher than expected, and by February 1988, with its new marketing strategies in place, they reached $2 million. The following month, Arthur Andersen announced that there was now confidence that the company could trade out of trouble. In the next two years, sales increased by 166% and more than $15 million was repaid to FAI, following a program of staff cuts, dealer encouragement and stock reduction.

Arthur Andersen also allowed money to be spent to continue research and development. "We took that unusual step in receivership because there was faith in the R & D already in the pipeline -- development that would make Horwood be
noted as an innovative company once again," Young says.

It was faith that was justified by the results it produced. Horwood increased its product range with an air-seeder for planting cereal crops and a laser-guided grader-scraper to grade land for irrigation, a product which produced an extra $1.5 million in sales last financial year. At the same time, general engineering contracts were sought and won for the under-utilised factory, which can accommodate up to 500 workers.

"The company was being far more market-sensitive," Young says. "The products were selling, although sales did certainly drop with the rural crisis in 1990-91. But we had a very lean operation by then, and the general engineering contracts, so the company kept moving."

Murray is now quietly confident that Horwood Bagshaw will survive and return to profitability. "The Tyson turbine will be a massive boost to our exports, which now are concentrated on our vacuum clover harvester," he says. "We are the only company in the world manufacturing one and we export the$34,000 machine to countries in the Mediterranean region. But it has a limited market and we need to be far stronger in exports. We hope the turbine will do that.

"As well, the falling dollar, far better commodity prices and a doubling of demand for Australian wheat from nine million tonnes last year to more than 15 million tonnes will help the rural economy and through that our sales of headers.

"I really believe that having come this far when the recession and the rural crisis have been at their worst, we will survive as a company."

FAI is just as confident. "Horwood will be strong again in the long term," Bob Wheeldon says. "We are secure in our investment, we are committed to gaining International quality assurance accreditation and we invested about$500,000 on new equipment such as computer design for our R & D team. We now have an interest in Horwood merging with, or acquiring, other farm machinery companies. Our view is that farm machinery is an area everyone else wants out of. We want to be there when that happens."