CFO one-on-one

Aaron Canning has been the CFO of Blackmores, Australia's leading natural health company, since 2014. It is a business that has seen phenomenal international growth in recent years, particularly in Asia. Aaron has a wealth of experience gained from working in a variety of general management and financial leadership positions in ASX listed and multinational organisations in Asia, Australia and New Zealand, the UK and the US. Prior to joining Blackmores, Aaron worked at Goodman Fielder where he held several leadership roles including Managing Director and Finance Director Asia Pacific. Aaron was named runner-up in CEO Magazine's 2016 CFO of the Year.

What are the nuances of being CFO of Blackmores?

The last 12 months have been a learning curve not only for me, but the whole Blackmores team. Coming off the euphoric highs of record financial results in 2016, we have had to deal with disruption and regulatory uncertainty in our largest offshore market China. This has required us to adapt how we manage the business in times of uncertainty including tighter control of our supply chain and importantly a more flexible approach to our capital structure and managing our balance sheet.

The other development that has become a part of my remit is playing a leadership role on global pricing. We operate in 17 countries and what's become apparent is geographical boundaries no longer define consumer pricing. The rapid development and growth of e-commerce platforms has created greater pricing transparency across geographies. Consumers now have greater choice as to where they can purchase a product beyond traditional bricks and mortar outlets. This also causes challenges for regulators and tax authorities in various countries as the flow of goods becomes increasingly global. As a brand owner we need to understand the nuances and challenges of these various channels and be able to adapt and flex our business model to suit.

With IT reporting to you and with significant e-commerce disruption, how does technology impact on your role and strategy?

We have 4 pillars that underpin the Group strategy. These being: Consumer Connectedness, Global Advantage; Innovation & Expertise and Operational Fitness. Technology runs across all of these as a key enabler. For example, consumer connectedness is about creating stronger direct relationships with our consumers and includes a consistent brand experience across all digital platforms, ecommerce, education and the development of loyalty programs across multiple jurisdictions in multiple languages. These all require significant investment in technology.

The rapid development of e-commerce has also created an alternative model for us to expand globally. This capital "light" approach has some advantages over more traditional business models where companies would typically use distributors or invest in their own physical infrastructure to expand into a new territory. To put this change into perspective, approximately a third of our Group sales in 2017 were ultimately transacted with a consumer via e-commerce. Three years ago this was around 10%.

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How has your role changed at Blackmores?

I would categorise the last 3 years as transformational for Blackmores in terms of financial performance, whilst it has continued to remain a proudly values driven company.

From 2014 to 2016 Group turnover doubled and post tax profits quadrupled to $100m with a share price increasing 7x, peaking at $220. The company went from the ASX300 to ASX100. In 2017, although sales remained broadly flat, profits declined 41% due to China regulatory uncertainty. Although the regulatory landscape has now become clearer, as you would expect managing volatility and delivering sustainable growth has become a far larger part of the role.

Phil McCann speaks candidly with Blackmores CFO Aaron Canning...

Asian consumers now represent around half of our Group sales and we see this increasing to around 70% over the next five years as we enter new markets and extend into new categories. We have also invested in our supply chain infrastructure including robotic automation in our packing facility and a large scale logistics and distribution hub in Western Sydney.

My role has added a broader range of functions over this time and the business has become more complex. The role has become even more focused towards supporting our growth in Asia. Although challenging at times over the last 18 months navigating through some uncertainty, I would be lying if I said the ride hasn't been fun!

A number of CFO's suggest that entering the ASX100 brings far greater scrutiny. Was this the case with you?

Blackmores has to a certain extent been seen as a barometer for Australian companies doing well in Asia. Arguably we have received more media and analyst attention than companies of a similar size who do not have the Asia thematic impacting their business.

When we entered the ASX100, one of the things that changed were the index funds who hold the stock as we moved from mid cap to large cap funds. However, we didn't notice any significant increase in scrutiny largely due to the attention we had been receiving previously.

What keeps you awake at night?

The fact that we operate in such a diverse array of markets which bring with them their own specific challenges around regulation and operations. Having a strong Government relations function and industry body representation helps, but ensuring we have an appreciation of the cultural differences of doing business across the various geographies is equally important.

We uphold the highest quality standards when it comes to manufacturing to ensure we deliver a product that exceeds all regulatory standards. In our view our product quality is second to none and we will never compromise on this. However, in times when an industry goes through rapid growth, there is the potential for new or existing entrants to look for ways to benefit from this growth. This could come from offering lower quality and priced product to entice consumers to purchase.

Lastly, balancing investing for long term growth whilst managing the here and now. As we report quarterly to the market, we are often judged on the financial performance of the business over the past 3 months, but our investment horizon is obviously far longer than this. We need to be able to balance the short term expectations of the market whilst reinvesting into the business to ensure we can continue to generate long term growth.

Did rapid growth coincide with under investment in platforms and infrastructure?

That would be fair to say, particularly in the IT function and to a lesser extent our supporting infrastructure. In periods of rapid growth there is a tendency to focus resources on meeting and servicing that growth.

Over the last two years we have started to focus on significant investments in technology and infrastructure to support our rapid growth. We realised that we can't operate the same processes and systems as we always have and hope the organisation continues to operate efficiently. An example of this is the investment we are making in rolling out a common ERP system across our Asian markets which will be matched to standardised logistics and supply chain operating models. This will allow us to have a standard suite of systems and processes that can be implemented when we choose to enter a new market. Our ability to turn size into scale will create operational efficiencies as we continue to expand and grow.