

The Social Enterprise Case Study Series provides an insight into how different types of social enterprises are currently operating in Australia. Social Traders has developed this series by consulting closely with individual enterprises to capture an inside perspective on the development of the enterprise and their challenges and successes.

Community Enterprise:

Yackandandah Community Development Company (YCDCo)

Summary

Yackandandah Community Development Company (YCDCo) is a community enterprise developed using a 'Community Buy-Out' model. The enterprise is wholly owned by the local community, with residents of Yackandandah making up its shareholder base. It was established in 2001 due to the proposed closure of the only petrol station in the town. YCDCo initially came into being to secure the local fuel supply but has since assumed a much wider role focused on social, cultural and economic outcomes for the town and community.

Having initially taken over the existing petrol station and raised significant capital through an unlisted public share offer in the community, YCDCo now owns and manages the purpose-built *Yackandandah Petrol Station*, which sells petrol, rural supplies, hardware and other consumer products typically associated with a service station.

The company has the dual and complementary goals of making a profit for shareholders and fulfilling a 'community commitment' to improve the economic, social and cultural well-being of Yackandandah, by reinvesting half of its annual profits in local community projects. This commitment to community is enshrined in the company's constitution.

Establishment Costs	\$450,000 provided through public share float
Years to break even	Profitable from outset
Annual Turnover	\$3,200,000
Annual Profit	\$35,000
Staff	12
Social Outcomes	Retention of local fuel supply; Salvaged community businesses – purchased local paper, and hardware store; Re-investment of \$86,000 in community projects
Support	Significant volunteered time commitment from Directors Operating loss in year one 50% subsidised by Council



Background

Yackandandah is a small rural township located in the hills of North East Victoria near the NSW border. It is a former mining town, and is now classified by the National Trust. Rich in history and natural resources, Yackandandah has a population of 2100 and the dominant industries are tourism and agriculture.

In 2001, a sign appeared on Yackandandah's sole petrol station stating that due to financial difficulties, the business would close in ten days. The prospect of the closure raised immediate concerns within the local community, in particular:

- The need for residents to make a 40 kilometre round trip to get fuel would be more costly and inconvenient and result in an outflow of money from the local town economy;
- There would be a loss of local employment from a long-standing and focal business in the town; and
- The loss of one business could have a ripple effect on other businesses and result in rural decline.

The previous owner had been unsuccessful in selling the business. The community recognised the importance of keeping the petrol station open and also realised it was up to the community itself to take action.

“We either sit around and whinge about rural decline, or we get off our backsides and do something about it.”

Mark McKenzie-McHarg, Founding Director YCDCo

With the petrol station closure just days away, seven proactive local residents got together to devise a strategy. Their immediate course of action was to keep the petrol station operating by establishing their own company to purchase the business. All seven locals became founding Directors through the purchase of shares in the new company, YCDCo.

In the longer term, the Directors were determined to find a model that would enable them to operate a petrol station with greater capacity to better service the community and be financially viable. Their ultimate vision was to build a sustainable, new and improved petrol station on a different site, that would better meet community and tourist demands.

Feasibility and Establishment

Key steps involved in establishing YCDCo and bringing the new *Yackandandah Petrol Station* to life involved:

- Each Director making a personal investment of \$1000, allowing YCDCo to take over and begin operating the failed petrol station;
- Undertaking an exhaustive 12 month feasibility study including research on the retail fuel industry and market, communicating with community residents and local and state government, and developing a business plan for the enterprise;



- Identifying that an unlisted public share float was the best model for raising development capital of \$380,000; and
- Distributing a detailed proposal in the form of an 'Offer Information Sheet' to the community, inviting individuals to become shareholders in the company.

An public share offer was launched in mid 2002 at the Yackandandah Public Hall. Although there were a few sceptics, the share offer was a resounding success. Just over 380 investors participated, raising a surprising \$412,000. The number of shareholders roughly equated to one third of the township's households at the time, a testament to their commitment to community renewal.

Following the share offer, the company:

- Identified a site owned by local council, for the new petrol station to be located;
- Negotiated with the Indigo Shire Council for the release of the leasehold on the land, as well as a rental agreement for occupation;
- Utilised a State Government grant of \$150,000 through Indigo Shire to develop the "Industrial Estate" on which the new station was to be located;
- Built the new petrol station; and
- Opened for business on 5 December 2003.



Throughout this period, the Directors contributed significant unpaid time in developing the business, without which the enterprise may never have started. It is difficult to place a value on this contribution, although it was clearly significant.

The new business began operations with 1.5 full-time equivalent (FTE) paid staff. Today, YCDCo has up to 12 full-time and part-time employees equating to a 4-5 FTE. In 2008, the company appointed its first full time manager.

Company Strategy

Though the initial goal was to secure local fuel supply in Yackandandah, the Directors set up the business to respond to, or support, similar community driven enterprise initiatives in the future.

A decision was taken from the outset to pursue a dual purpose strategy that addressed both commercial and community needs. This would enable YCDCo to deliver positive community outcomes underpinned by a sound commercial focus that maximised return to shareholders and ensure ongoing financial viability.

The key benefit and competitive advantage of this model is community ownership. With a vested personal interest in the company, community members are more inclined to buy from and promote the business to help ensure its success.



YCDCo's objectives:

1. to operate YCDCo on a commercially sustainable basis and generate profits for shareholders in the long term;
2. to retain the broad-based community ownership of YCDCo;
3. to return 50% of any future profits the company generates back to community causes and projects (to be defined); and
4. to return the remaining 50% of any profits to YCDCo shareholders.

Company Structure and Governance

The company was initially established as a proprietary company, but was converted in 2003 to an 'unlisted public company', in order to have a more flexible legal avenue to raise public capital.

There are currently eight Directors, including people from local businesses and the general community. Directors are elected by the shareholders at the AGM and each Director serves a three year term. The Board meets monthly and conducts strategic reviews every year. Directors are unpaid, except for the sole Executive Director who is remunerated for secretarial services. All Directors hold shares in the Company.

The Service Station is run through a separate Management Committee - the Yackandandah Station Management Committee - which comprises three Directors and the site manager. The Committee reports to the Board on a quarterly basis.

Marketplace

YCDCo's market is predominantly fuel operated vehicle/machinery owners in Yackandandah and surrounding communities and the transient tourist community.

The company benefits from not having any local competition in the fuel trade. Nevertheless, YCDCo has expanded their customer base by increasing its fuel supply capacity with more petrol bowsers and improved access for large trucks

Having secured fuel supplies for Yackandandah and having always recognised the limited profitability of the fuel business, the Board took steps in 2004 to create a more commercially successful enterprise. An opportunity arose when the local hardware store was available for sale. YCDCo took over the store lease and bought the remaining stock. The facilities on the petrol station site were expanded to enable sale of hardware, produce and rural supplies, which commenced on 18 February 2005. The Board is confident that the expanded retail mix will underpin the long term profitability of YCDCo. The growth into non-fuel products has also expanded their market. However, as their primary focus is on community well-being, YCDCo has been particularly cautious from the outset not to compete with local business.



Financials

YCDCo operated the original petrol station at a loss of around \$500 a week for 12 months. Through an agreement, Indigo Shire subsidised 50% of the losses, and the remaining amount was recouped by personal contributions from the Directors, and by recruiting another three shareholders. A public appeal for the community to “use it or lose it” also assisted in reducing the losses.

In contrast, due to the increased capacity of the new facility, the *Yackandandah Petrol Station (Circa 2003)* was able to break even from day one of operations. Within 12 months of operating, YCDCo was trading significantly above levels forecast at the time of the share offer, a result the Board attributes to initial conservative figures, as well as a strong marketing campaign and press coverage.

The business has seen steady growth in fuel sales since establishment, turning sales of 11,000 litres/week under previous ownership into sales of approximately 45,000 litres/week. As anticipated, revenue from non-fuel sales is the major contributor to the company’s profitability, providing the business with just over half a million dollars in revenue in the 2008-09 financial year.



It cost approximately \$450,000 to establish the new *Yackandandah Petrol Station*, and a further \$150,000 was spent on developing and expanding up to 2009. Total net assets, including cash, is approximately \$460,000.

YCDCo is now turning over more than \$3,000,000 annually, of which approximately 80% is revenue from fuel sales. In the 2008/09 financial year, the company made a profit of around \$36,000. Of this, \$33,558 was directed towards ‘community contribution’.

Since beginning operations, YCDCo has distributed a total of \$86,000 to over 30 projects in the community. These funds have purchased a new community bus for the Yackandandah Bush Nursing Hospital, provided support for the local primary schools’ kitchen Garden Club, and assisted the replacement and upgrade of playground equipment in a local park.

To date, the Company has made one business investment in Yackity Yak Pty Ltd, a 100% owned subsidiary. The local Yackity Yak newspaper is another salvaged community asset. As a break-even operation, this provides no surplus income for YCDCo but is of social value to the community.

Shareholders in YCDCo received their first dividend from the company in 2005. In 2008/09, the total contribution to shareholders was \$19,970.



Stakeholder Relations

YCDCo could never have survived without the overwhelming support from local residents, both in terms of financial investment in the company, and the continued local ownership and management and daily patronage.

The partnership with Indigo Shire council provided a significant leg-up, through the provision of the land and a nominal rental fee for three to five years. This partnership worked for Council, as the community contributed the capital, and Council was not asked to financially 'rescue' the business, something they would be politically unable to do.

In the past few years, YCDCo has developed a retail alliance with the local Foodworks Grocery store, giving YCDCo shareholders significant discounts on fuel and groceries. This strategy provides further incentive for becoming a shareholder and shopping at *Yackandandah Petrol Station*.

Challenges

An early challenge for YCDCo was in raising the required community support and investment. There was a significant amount of groundwork required, particularly to convince those who were resigned to the demise of local rural businesses.

YCDCo lacks a company CEO to work on the 'company' business, as opposed to the *Yackandandah Petrol Station* business. At present there is not quite the revenue required to support the appointment of a CEO. This means that the responsibility for this work continues to fall on the Directors as volunteers.

As a community asset, YCDCo has come to be perceived as "all things to all people". This has resulted in 'YCDCo the social enterprise' often being seen as 'YCDCo the community advocate' and creating a difficult tension for the Directors.

Every marginal and failing business in the community approaches YCDCo looking for help. Taking on such businesses brings the risk of making YCDCo a marginal business itself.

YCDCo needs to grow its profitability enabling it to carry or transform loss-making businesses that are of social and cultural value to the community.

"If it's counterintuitive, bugger it – let's have a crack at it!"
Mark McKenzie-McHarg

Success Factors

YCDCo's existence can be strongly attributed to the passionate, motivated and committed group of champions who were prepared to challenge conventional wisdom and take risks to turn a vision into reality. The YCDCo Directors have strong business and people skills, enabling the creation and development of a sustainable responsive business.



Its continued success and growth is a direct result of good management and the unique community ownership model, which retains community members as the owners, administrators, managers and employees of the enterprise. Community ownership continues to provide a great incentive to see the business succeed.

The company is not beholden to politics and is not reliant on grants, subsidies or donations to survive. Independence and a model of self-determination have provided solid foundations for the future growth and success of the business.

For More Information

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This case study was written by Social Traders based on information provided by Yackandandah Community Development Company (YCDCo). The publication of this case study has been approved by YCDCo.

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