

# retail DIGITAL



## **Falkland Islands Holdings:**

On its own feet





# **Falkland Islands Holdings** achieves consistent growth in a low growth economy

As the 25th anniversary of the Falklands conflict approaches, the islands' largest company is celebrating record levels of profitability and is establishing 21st century levels of service and professionalism in its retail arm

Written By **James Hurley**

Produced by **Kate Bradley**

COMPANY FACTS

Falkland Islands Company (FIC) established 1851

FIC shares were listed on the London Stock Exchange in 1962

FIC's acquired by Anglo United in 1989

FIC's established in 1997

FIH listed on the London Stock Exchange in January 1998 with an issue price of 100p per share and market capitalisation of £6 million

The FIH share listing was moved to the AIM market in January 2003

Today FIH has a market capitalization of £20 million

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**T**he Falkland Islands Company was established in 1851 and received its Royal Charter only a year later. With an authorised capital of £100,000, its purpose was to engage in agricultural and general trading activities, including establishing a shipping link with the UK. A major landowner and sheep farmer, the company controlled almost half the land area of the islands at one stage, and it has steadily widened its activities to provide a broad range of services to the people of the Falklands. As John Foster, the managing director of Falkland Islands Holdings (FIH) explains, the pervasive influence of such a well established company still informs perceptions of the firm on the islands.



"Although the company itself is relatively small - compared to say the activities of a UK company like Tesco - historically, we were viewed on the islands as a gigantic corporation. We owned most of the land, we employed most of the people, we supplied their food and drink and we did

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almost everything commercially that there was to be done. On the islands it's still known as 'The Company'," he explains.

"To the extent it had an influence on everyone's lives it was viewed both positively and negatively. Historically, at times, it could be seen as too pervasive particularly before the company sold its farming interests, but at the same time people were grateful that the company was there in the first place providing islanders with the essentials of modern life. Today the ambivalence has largely disappeared; we no longer own the farms or employ the farmers and we clearly provide an invaluable service. People in the Falklands see us as a trusted partner and are pleased that we can offer modern professional services and can act as a bridge to deliver almost anything that is found on the UK high street and in that sense we're a lifeline. The fact that there is local competition and that people still have choice is a good thing. This keeps us on our toes which is ultimately positive for all concerned." 

## Consistent growth

FIH is an AIM listed company, with operations in both the Falklands and the UK. In the Falklands, the company's activities include retailing, property, insurance, hotels, tourism, shipping and fishing agency services. Foster says that 2006 was another successful year for the company, with slow and steady growth a sign of a healthy balance sheet in a stable but essentially low growth economy.

"We're just coming to the end of our financial year: our activities in the Falklands are consistently profitable and obviously we're looking for that to continue - there are no radical changes or major surprises. As a quoted company, the market is expecting the group to perform a similar level in profit terms but with our Falklands business doing a little bit better than last year.

"We had a good start to the year as the squid catch was particularly good in early spring. That's not directly connected with the retail business - we don't catch squid and very few people on the Falkland Islands do, yet the success of the squid catch drives the whole economy because the licensing income that it generates feeds back into the government coffers. Since the Falkland Island Government employs most of the people on the Falklands this is very important to the economic well being of the islands," Foster explains.



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## The South American connection

This year sees the 25th anniversary of the Falklands conflict, when Argentinian forces invaded and occupied the islands for 74 days. It's an event that is still significant in the collective psychology of the islanders, and as such still impacts on FIH's business plan.

90 percent of the company's goods come on boats making a two month return journey from Southampton in the UK and this is likely to continue to be the major source

of supply for many years to come. The company is also keen to take advantage of developing South American economies and trade links.

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"The fishing license income is the single most important source of external income for the islands, so that has certainly helped us this year. Also, we supply the military on the islands with Land Rovers and we had some encouraging orders this year. The economy is fairly stable, it's not a high growth economy and it's not affected in the same way as the UK by house price inflation but it creates a platform for slow and steady growth over the long term and this is what we're looking for."

John Foster

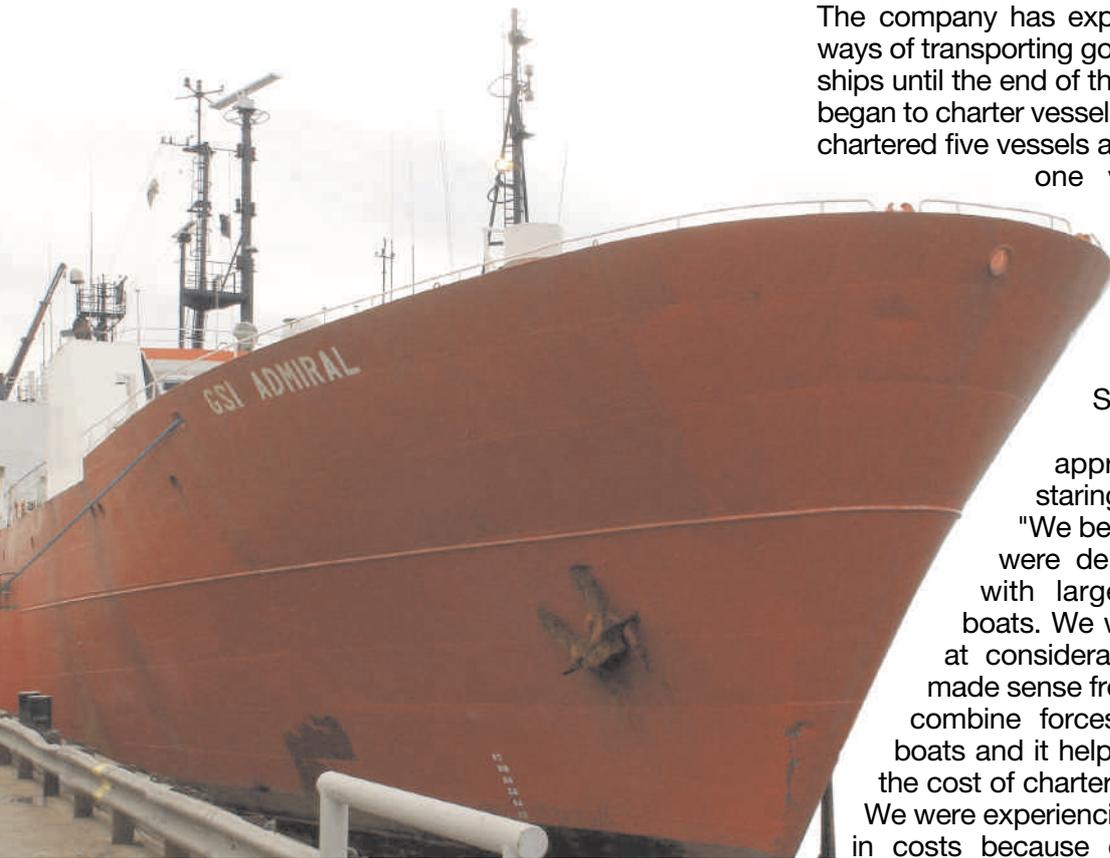


"The quality of South American goods has got better and is consistently improving. People are becoming more comfortable with trading with South America as an idea. Countries like Chile in particular are an obvious trading partner for the Falklands. Yet Chile and others have to be careful because they have to work closely with Argentina where the current regime remains hostile to the islands. The quality of goods on sale in Chile is comparable to Western Europe in many areas but the cost is much lower. We can get quality merchandise, from fruit and vegetables to furniture and shoes, at a significantly lower cost. And of course the transport costs are lower. Over time I think that this area will grow as people see the advantages and become more familiar and comfortable with the idea of buying Chilean goods."

Argentina, however, remains problematic. "People are reluctant to place too much reliance on a country that remains so unstable. The obvious danger is that if the Falklands ever became reliant on Argentina, they could just turn the tap off and that's something the islanders are very aware of. Commercially we're not necessarily tied to Britain, but like any business, we're customer driven. As there's such a strong reliance and focus on Britain at the moment, it will take time for the South American market to grow but that will happen over time."

## Long distance importing

With the islands likely to remain reliant on British imports for the foreseeable future, FIH has been consistently challenged to find ways to improve the efficiency and reduce the cost of what is a time-consuming and expensive logistical operation. ▣



The company has experimented with a number of ways of transporting goods, and even owned its own ships until the end of the Second World War, when it began to charter vessels from the global market. "We chartered five vessels a year which essentially meant one vessel making five return journeys. Since it's a month each way, that's ten months, plus a little bit of time to load and unload. That was our basic logistical architecture until September 2005," says Foster. A more cost-efficient approach, however, had been staring the company in the face. "We began to realize that the military were delivering goods to the island with large, sometimes half- empty boats. We were delivering to the islands at considerable cost to ourselves so it made sense from everyone's perspective to combine forces. We take space on their boats and it helps us to keep costs down, as the cost of chartering boats had been spiraling. We were experiencing sharp double-digit growth in costs because of rising fuel prices and a

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tightening market. The new approach has helped us to control costs and keep prices level in the island, avoiding sharply rising consumer prices. Another advantage of doing it this way is that there are roughly ten ships a year going to the islands so we can supply our businesses ten times a year instead of five, reducing our stockholding."

Such long distance importing does pose some perennial problems, however. "The fresh produce, and the fruit and vegetables in particular, remain difficult," says Foster. "Transporting it by air isn't an economically viable proposition and it's very unlikely that it ever will be. In terms of fresh produce there are two options. One is to produce more locally and there's a market garden on the outskirts of Stanley that we work with, as well as a local abattoir that provides fresh meat and some local fisheries as well. Those areas are growing and the other option is to import more fresh produce from South America.

"If you walk into our supermarket, much of it is similar to a small Tesco or a Waitrose in the UK but one thing that will strike you is the relative lack of fresh fruit and vegetables. That's normally a set piece display for UK supermarkets. It's an area we're working on but the logistics of the distance and the relatively small volumes means that it's impossible for us to do what Tesco do and ship produce in from all over the world."

### Just behind the cutting edge

In the low growth economy of the Falklands, achieving any kind of consistent growth will always be a challenge. Foster believes that the

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key to rising to this, and other challenges like internet retail, is to avoid complacency.

"We aim to keep innovating, keep trying new things, keep introducing new ways of displaying products and attracting customers, offering more special offers, linked purchases, in-store promotions and getting people to try new things - I don't believe any food market is fixed in size even if you're dealing with the same people."

The company has a close relationship with Waitrose, reflecting the consumer demographic on the Falklands, where average incomes are slightly higher than in the UK. While the company already occupies a substantial chunk of a relatively small market, it is keen to reward its loyal customers and heed of the challenge of the independents.

As such, Foster says that there are plans to introduce a loyalty card scheme. "We want to show our customers that we do appreciate their loyalty. We might not be able to offer the same level of personal service that the local independents do, but on the other hand it's vital that we're there as the independents could never offer the professionalism and range of services that we provide."

To ensure that the company's staff are well trained and that FIH keeps abreast of changes in the industry, workers are sent to the UK and attend trade fairs there on a regular basis. Foster believes that experiencing the UK market and its initiatives on a regular basis keeps a company that is distant from the market geographically very close in business terms. "We're never going to be ahead of Tesco, but we don't want to be too far behind. We're not at the cutting edge, but we're not far behind and realistically that's where we need to be." □

## GIBBONS INTERNATIONAL LTD

Gibbons International Limited is a supplier of various commodities including food, drink and consumables etc. to the Falkland Island Trading Company. The company hopes to benefit the islands through its long standing relationships with a supplier network covering the UK, continental Europe and Scandinavia.

Gibbons has been supplying FIC Ltd for over 15 years and has had its Senior Business Manager Tony Buckley visit the Falklands personally on several occasions to make sure the islanders are happy with the quality of the products and personal service given by all at Gibbons International Limited.

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Falkland Island Holdings, Charringtons House, The Causeway,  
Bishop's Stortford, Hertfordshire, CM23 2ER

Tel: 01279 461630

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