

# CORRECTED VERSION

## RURAL AND REGIONAL COMMITTEE

### **Inquiry into the opportunities for people to use telecommuting and e-business to work remotely in rural and regional Victoria**

Barwon Heads — 6 November 2013

#### Members

Mr D. Drum  
Mr G. Howard  
Mr A. Katos

Mr I. Trezise  
Mr P. Weller

Chair: Mr P. Weller  
Deputy Chair: Mr G. Howard

#### Staff

Executive Officer: Ms L. Topic  
Research Officer: Mr P. O'Brien

#### Witness

Mr A. Smith, business development, Grampians Sandstone.

**The CHAIR** — Welcome to the public hearing of the Rural and Regional Committee inquiry into the opportunities for people to use telecommuting and e-business to work remotely in rural and regional Victoria. I hereby advise that all evidence taken at this hearing is protected by parliamentary privilege as provided under relevant Australian law. I also advise that any comments made outside the hearing may not be afforded such privilege. For the benefit of the transcript could you please give your name and business address?

**Mr SMITH** — Certainly. My name is Andy Smith. My business address is 25 Waverley Road, Malvern East.

**The CHAIR** — In regard to your presentation, would you like questions at the end or as you go, or just a general discussion?

**Mr SMITH** — I am happy to answer questions as we go. That is fine.

**The CHAIR** — All right. You might lead off with a few comments about your business and how it works and any issues.

**Mr SMITH** — Yes, certainly. Grampians Sandstone is a fairly unusual business. We are a 150-year-old sandstone quarry based in the southern Grampians. We are about 12 kilometres north-east of Dunkeld and about 38 kilometres east of Hamilton. The quarry produces what is called dimension stone. I believe we are the last dimension stone quarry remaining in Victoria, most of the others having closed. It is a very difficult business to be in; it has very high sunk costs. The quarry is owned by the Dunkeld Pastoral Company, which in turn is owned by the Myers family in Dunkeld.

When I say the quarry produces dimension stone, probably most people would not know what dimension stone is. Dimension stone is big blocks of stone that are cut out. I suppose the quarry looks a little bit like a Roman amphitheatre. The stone is cut out in big blocks and steps, as opposed to quarries that blast out stone to be used for road building and so on.

That our quarry survives is probably largely because of Allan Myers from the Dunkeld Pastoral Company. Allan is a great believer in this as a local and regional business and wants it to be profitable. It has been very difficult for us, probably for the last five or six years particularly. I will touch on this in a minute, but essentially quarries like this find it very difficult to maintain profit because of the globalisation of the industry that has happened, particularly, obviously, with the increased use of the World Wide Web and just the fact that the market has shifted from being a regional market to a world stone market.

In terms of the history of the quarry itself, it is a very small quarry. Melbourne is our biggest market, but Melbourne is a bluestone city, so we have to maintain a presence in Melbourne, which is what I do; I look after business development in Melbourne. Obviously we are always trying to grow our business, but as I said, it is a very marginal business. We do not make a lot of money, but Allan has persevered with the business because he believes that one day it can be profitable and can provide regional employment.

**The CHAIR** — When you say ‘marginal’, to bring it in from overseas would be fairly expensive — just rock.

**Mr SMITH** — Paul, to answer that question, it would be cheaper for us to send our stone offshore to China, get it processed and then it bring it back here in containers than it would be to process it here. That is how difficult this business is now. China and India are such low-cost processors of stone. People say it is wages, but it is not just wages; it is the fact that they have got such massive economies of scale, particularly China. They have large multi-bladed machines there that can take a big block of our stone, slice it up like bread in a very short period of time and turn it into blocks, pavers or whatever for building.

Given our relatively small customer base at the moment, for us to put the money in to gear up to that degree we would have to have a guarantee of a large amount of business, and you just would not do it; the risk would be too high. I hope that answers the question.

**The CHAIR** — So you are saying it is economies of scale?

**Mr SMITH** — As I said — and this is probably what is relevant to this discussion today — 5, 6, 7, 8, 9 or 10 years ago we were only competing, and most quarries in Australia would have only been competing, against

other local quarries, so your competition was maybe 200 or 300 kilometres away, and you were producing stones for people to use locally in an artisan sort of business. I should mention there would be the occasional large project in, say, Melbourne.

That has now changed. Our competition is now quarries from all over the world. We do not even know who our competitors are. Our competitors could be in Brazil, Turkey, Ethiopia — there is Ethiopian stone on the world market now. As you can imagine, a lot of these countries are very low cost producers, so they are able to extract the stone at a very low cost. It is very cheap to ship stone around the world now. Containerised shipping is relatively inexpensive, and particularly with all the shipping coming out of China it is very easy to get a back load rate to ship containers of stone back into China or India, where it is processed and then sent on to other countries.

**The CHAIR** — Do you supply stone to other countries or just locally?

**Mr SMITH** — What we would like to do is supply stone to other countries, and that is partly where the internet technologies and so on come into it.

**The CHAIR** — E-commerce.

**Mr SMITH** — For a business like ours, which is trying to transform itself from an artisan business into a business that supplies stone globally, technology is very important.

**Mr HOWARD** — When did you establish your website?

**Mr SMITH** — We have had a website for probably six or seven years, but it was not particularly well geared to internationalising our business. It was just a very basic website. We rewrote that about six months ago, and we have already started getting good inquiries from overseas about our stone. Most of it comes from China. That is not a problem, other than the fact that China always looks for the lowest price. From a business point of view I would like to segment our business and say, ‘Yes, we will provide volume stone to China at a low price, and also look for work supplying heritage stone to other countries at a high price’.

**Mr HOWARD** — In terms of your present market, how far do you market at the moment or sell stone to?

**Mr SMITH** — At the moment our market is pretty well restricted to Victoria and into Melbourne. Most of what we have done has been small scale, because we do not have the ability to finish stone off, to process it to the degree it needs to be processed. We used to do that; we used to have a small saw set up at the quarry, and we would literally try to make tiles, pavers and blocks by hand. That is one of the reasons why when globalisation came we really started to struggle, because our stone would sell for \$240 per square metre for our tiles and pavers compared to \$40 per square metre for imported stone from India and China. You can imagine that that makes you non-competitive.

We stopped doing that. Now we are concentrating on being essentially a dimension stone quarry where we just supply the stone. I suppose it is back to being quarry Australia again, in a sense.

**Mr HOWARD** — So where is the stone that you sell into Melbourne processed?

**Mr SMITH** — With the stone that we sell into Melbourne at the moment, we can get small amounts processed by a couple of the few remaining stone processors that are left in Victoria, and there are not too many of them. Most of those are second and third-generation family companies. Layton Stone in Sunshine is one example. They have a thing called a block saw there, which is like a giant circular saw. They can take our blocks and slice them up, and then they have some smaller saws with which they can cut tiles and pavers, but they cannot do large runs competitively, so our client base is very much a boutique client base. It is for people who want an Australian product and know that our stone is superior, which it is. We have a better product than most of what comes in from China and India, so our client base is fairly small and specialised. We actually just sent our first load of stone to China, about three weeks ago.

**The CHAIR** — With the latest technologies, the internet and communications, how do you plan to use those to grow your business? You said you updated your web page six months ago.

**Mr SMITH** — Yes. The web page is a good example of that. I know that sounds like a simple thing, but I look at regional businesses in our area, in Dunkeld, Hamilton and so on. A lot of regional businesses do not realise just how important the web is to their business. That is no. 1. A second area I would say is very important for us in terms of technologies is that increasingly we get inquiries from overseas, so it is the ability to respond quickly to email requests. Third, even when we are looking for equipment or when people are looking to buy our stone, it is the fact that we can go out and video our quarry on any given day, and we have been asked to do that a number of times so that people can actually see what the quarry looks like. People who understand stone can look at a quarry like ours and say, ‘Okay. Yes, I know what sort of stone that produces’. They can see whether our stone is flawed or cracked or whether we are getting big blocks. You can learn a lot from a video of a quarry. They are just a couple of simple examples.

I would say one of the other ones is that when we do invest in equipment for extraction the equipment we are going to buy is likely to be computerised. So even though the quarry is 12 kilometres out of Dunkeld down a dusty little dirt track, we can get a Telstra signal from there so anyone who is going to do diagnostics on our machinery, whether they are in Italy, China or wherever, can actually remotely access that machinery and do diagnostic work on the electronics. It is that sort of stuff.

**The CHAIR** — So they would be able to gauge what the quality of the rock is?

**Mr SMITH** — In theory they could reprogram or software update our machinery. A lot of the machinery now is computerised, so in theory someone could access the machine, diagnose the fault and repair the fault from Italy or China, which is where most of the machinery comes from now.

**The CHAIR** — Very good.

**Mr SMITH** — I did make a couple of notes on the way down here. They are fairly brief. One of the things I did think about was the globalisation, which I have mentioned. For us as an industry, we do not look for any sort of special breaks or anything from government or anything else. We realise that we are in a situation now where we have to adapt or die. That is probably what the car industry and a lot of other industries are going through at the moment. If we cannot provide a product at a price that consumers, end users or commercial users want to buy, then obviously we do not deserve to survive. We are trying to find ways to survive, so the technologies I have just mentioned are the sorts of things that could give us an edge.

Also, working for a company like the Dunkeld Pastoral Company, that is an example again of where technology enables our organisation to link itself together. We have the quarry in Dunkeld that is remotely located from the office, we have an office in Dunkeld that is remotely located from where our key financial people, CEO and everything are located in Collins Street in Melbourne and I actually have to organise freight logistics et cetera for the quarry from a home office in Malvern East.

**The CHAIR** — How many people are employed in the quarry business? If you are successful with your globalisation, how many would you see being employed?

**Mr SMITH** — That is a difficult question to answer. We used to have three people full time; we are now down to two people. That is how hand to mouth we are. We have survived by ruthlessly cutting costs, but now we have to start turning things around and look for opportunities to grow the business. The short answer to that question is: probably another five or six employed at Dunkeld, if we were able to grow the business to the point where we were taking out large volumes of stone and exporting it. Then we would also look at setting up our own process; Dunkeld might be a bit difficult, but potentially maybe in Hamilton or Ballarat, and that could grow and employ another five or six people.

**Mr DRUM** — Andy, whilst you are saying that your business is reasonably well served with connectivity because of the Telstra tower, what is the situation with other businesses around your area? Are you aware of other businesses that may be hampered or constrained by a lack of connectivity?

**Mr SMITH** — Damian, I can only speak anecdotally, but I drive to the quarry on a fairly regular basis, and there are certain areas that you just know are flat spots where you are not going to get a signal, so that obviously precludes people from running businesses. Some of those are in regional towns, so that must have an effect. The other thing is that Telstra is the only carrier that seems to be able to provide that. It would be nice, obviously, if there was a greater choice or a competitor.

Just going back to the use of technologies, one of the reasons why we need to be connected and why we need to maintain connection and digital literacies, if you like, is that there are technologies coming that we do not even know about yet that will affect our business as well. A lot of businesses like ours probably did not see the internet coming. I should mention that the effect of the internet has been that buyers and sellers can find each other quickly all over the world. As I said, a business like ours would have had a small and captive market 10 or 15 years ago. Now in theory our customers can buy the product directly from China. It does not happen yet, but it will happen increasingly. Things are going to get flatter. We have to prepare for technologies that have not even been invented yet, things like 3-D printers that allow people to model things and then build an accurate model from afar. Those are important things.

The other thing that I should mention that is going to be important for us is digital education. It is one thing for us to have access to the tools, but we also have to make sure that the people who work with us or for us are digitally literate. I am 56 years of age, so I am not a digital native; I have had to learn it. I have a 57-year-old quarry manager who is probably going to retire at the end of next year — he has announced that he wants to go at the end of next year. When he goes, we will lose his skills in understanding the stone, and that will be very difficult to replace. On the plus side, it means that probably whoever we put in his place will hopefully be digitally literate, and by being digitally literate they will be able to do a lot more things from the quarry. I hope I am mentioning the questions that you are looking for answers to and that that has given you some understanding of the business.

If anyone wants to see what the actual stone looks like, that is the product we produce. Those are just things that I am taking down to our office. I have to do just a little presentation this afternoon for the girls in our office in Dunkeld, just to bring them up to speed with some of the things that we are doing.

**Mr DRUM** — What is the main use for your stone?

**Mr SMITH** — At the moment, because we have had to reduce the size and scale of the business, we have got out of doing finished stone, so now we are doing semi-finished stone. The main uses at the moment are external walling and landscaping. We are still a very artisan business. We are cutting up steppers and things on a wheel on the excavator at the quarry. We are doing wheel-sawn steppers, random-shaped walling stone and crazy paving. At the moment we are able to produce only things that do not take a lot of investment in equipment and things that are fairly artisan. The funny thing is that since we have gone back to doing that the volume on those things has started growing, and they are probably the profitable parts of the business. We can grow those further and improve with the economies of scale.

I should also mention that potential customers include the Victorian government. We would have loved to have supplied some of the stone for Parliament House, but unfortunately that was purchased and imported from Germany. I still do not know why. Our stone passed all the tests and everything, as far as I know, in terms of quality.

**Mr DRUM** — I was under the impression that they went back and reopened the quarry that the original stone came from.

**Mr HOWARD** — In the Grampians, was it not?

**Mr SMITH** — I don't think so. The quarry you are referring to would be the Heatherlie Quarry, which is just north of us — about 60 kilometres north, up near Halls Gap. That produces, likewise, a beautiful white stone. I know that quarry was in the national park. I know there was a lot of controversy back in the 80s over whether that could be re-quarried. I think some stone was stockpiled; I am not sure. There might have been some exceptions made, so maybe they have been able to get some stone out of there, but I certainly know that a lot of German stone, or a fair bit of German stone, was being used in the Parliament refurbishment.

**The CHAIR** — Right. Do you have any more?

**Mr SMITH** — I will probably just make the comment that for a company like us, or an organisation like us, the effects of technology are sort of magnified when you are in a region. By that I mean that I could be digitally illiterate in Melbourne and still manage to run a business because if someone wanted something, I could physically run it over to them. If you want a picturesque stone or you want to see what something looks like, I can physically run over to do that. Being in a region, I cannot do that. That is where being able to communicate

electronically is critical, particularly to organise things like freight, logistics or just to send an order through. Those sorts of things become critical. When you are regionally based, being connected and being digitally literate can overcome a lot of handicaps and can make a business viable where it otherwise would not be viable. It is as simple as that.

**Mr DRUM** — It is certainly good evidence for us to hear that the importance of the technologies is probably magnified when you move into the regions, as opposed the need to be connected in the cities. You can possibly still get away with just using your phone and actually getting around it.

**The CHAIR** — You could put it on a pushbike.

**Mr SMITH** — Yes. As I said, if I had no digital experience at all — if I were not connected, if I did not understand how to use a computer or email or whatever — I could still get around that in the city. I know people who, again, are in my age group and who run businesses and who have little workarounds for that. That difficulty is magnified in regions. You cannot hide.

**The CHAIR** — I guess what this inquiry is about is things that a state government can do to assist you to grow your business globally. You have done your webpage and that sort of thing. We are here to listen to ideas about how we can assist to grow you. It is the federal government's responsibility about the connection, but what can we do as a state government — what sort of programs — to assist businesses in rural and regional Victoria use the technologies to grow globally?

**Mr SMITH** — I think partly it is assisting regional authorities, for a start. We are part of Southern Grampians Shire Council. They have a really great business development guy who helps organisations like us hook up with other organisations. I am sure they are always needing more support. I would look at that area because they understand. They know the people who are in the region.

I do not think there is a lot that state government can do for us at the moment because for us, as an organisation — I think we are well resourced, but I think a lot of businesses or people who could start or run businesses do not know what they do not know. I would have thought that education about the potential — helping people realise that you can run a business remotely and that you do not have to be in Sydney or Melbourne or even Ballarat or Bendigo or Warrnambool to run a business. If you have a good idea and if you can market smartly, then you can be successful.

**Mr HOWARD** — On that score, how did you and others in your business gain those skills to be able to know that you need to upgrade your web and to do all those other IT things you are now doing in your business?

**Mr SMITH** — I came to that because I had run small businesses myself before I came to work for this organisation. I did not learn that while working for the Dunkeld Pastoral Company or Grampians Sandstone; I brought that with me. I know that a lot of people I come into contact with in the regions — when I have conversations I will mention a particular technology, and I can see their eyes glaze over because they just do not understand what I am talking about. As said, I am not a digital native; I am not a geek. I do not have high-level digital skills, but I have a broad understanding. To partly answer that question, I think it is making sure that people in the regions understand that there are technologies they can use.

**Mr HOWARD** — Are there services and activities happening, either through Southern Grampians shire or others? Sometimes councils and regional organisations are trying to offer courses, but then it is a matter of the businesses —

**Mr SMITH** — Taking advantage of that.

**Mr HOWARD** — not seeing the value of linking in to them and not taking those opportunities.

**Mr SMITH** — Yes. That is probably a difficult question for me to answer because I am not in the public education arena. Yes, the Southern Grampians shire do run business workshops and things like that. I do not know how you communicate the importance of this stuff to people, but they need to realise it for them to be competitive.

**The CHAIR** — Very good. Andy, we might wrap it up there.

**Mr SMITH** — Look, there is probably not much more I can add. There is no point in talking for the sake of it. I just hope that gives you an idea of just one organisation.

**The CHAIR** — Thank you very much for taking the time to come and address us and the preparation you did. It has been very valuable information. In about 14 days time you will get a copy of the Hansard transcript from Lilian. You will be able to make corrections to obvious errors, but other than that it will be as it is.

**Mr SMITH** — That is fine.

**The CHAIR** — Thank you very much, and we wish you all the best with your endeavours to sell stone.

**Mr SMITH** — Thank you. Hopefully we sell a lot of it.

**The CHAIR** — Good on you.

**Witness withdrew.**