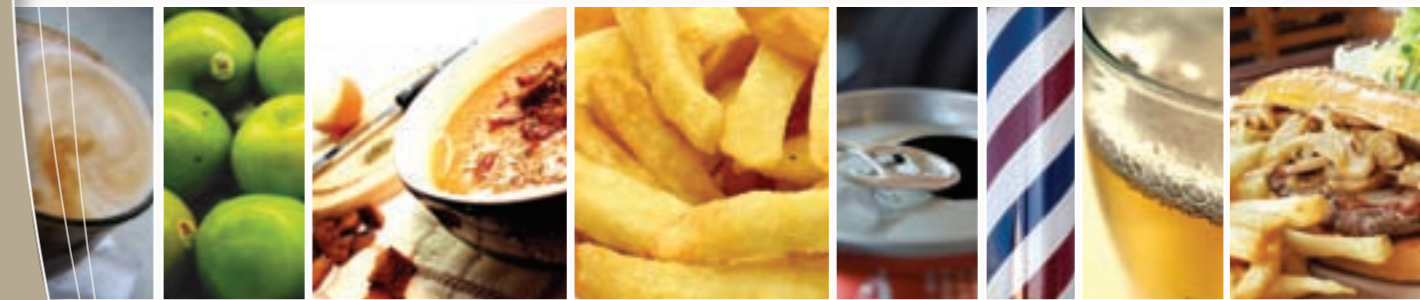




Australian Government
Army and Air Force Canteen Service

FRONTLINE DEFENCE SERVICES
Strategic Plan 2008–2012



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FOREWORD BY CHAIRMAN AND DEPUTY CHAIRMAN

For the Australian Defence Force to continue to achieve its mission “to defend Australia and its national interests,” each and every Defence organisation must deliver the right capabilities to the ADF at the right time, both now and in the future.

For Frontline, this means providing convenient and essential products and canteen services in line with the expectations of today’s ADF personnel.

The maintenance of sufficient numbers of well trained and motivated personnel is a critical part of capability generation. To boost the recruitment and retention of ADF personnel, the federal Government recently approved funding for Phase 2 of its ongoing and major improvements to living-in accommodation and facilities for single members of all three Services. The new accommodation will be designed for the independent lifestyles expected by young single members of the ADF. It cannot be underestimated the contribution that on-base amenities such as canteens, taverns and clubs make towards further improving the living and working conditions of servicemen and women and the direct impact that this has on the morale, welfare and ultimately the retention of these personnel. This is the purview of Frontline.

The past three years have seen some major changes to Frontline’s trading environment. The most significant of these are generational shifts in customer attitudes and preferences away from the traditional snack bar type outlet toward more contemporary dining options; the reduction in base populations through increased numbers of troops deployed on operations; limited on-base accommodation, its standard and the consequential preference of Service personnel for off-base accommodation and, finally; the encroachment of civilian population and commercial centres around bases. Taken together, these factors have resulted in a significant reduction in Frontline’s traditional customer base and increased levels of competition for those customers who remain. Ultimately, Frontline’s business has continued to decline over time and current trading operations are unprofitable.

Frontline intends to transition from its current and unprofitable operating model to an organisation capable of delivering a quality range of canteen services, amenities support and other activities that meet the needs of ADF personnel and their families throughout Australia and on deployment overseas. The entire Frontline Team will achieve this by delivering on the key organisation objectives and excelling in the basics of retailing.

This strategic plan outlines the eight key business and operating themes which form the basis of Frontline’s regeneration to, again, become a self sufficient and commercially viable organisation and signal its return to a position where financial disbursements can again be made to relevant Service welfare and amenities. The Board and management of Frontline have worked very hard on this plan and are aligned behind its vision and operating effects. We commend it to you.



E. P. Moore
Edward P Moore
Chairman



P. B. Symon
Paul B. Symon AO, GAICD
Brigadier
Deputy Chairman

STRATEGIC INTENT

OUR PURPOSE

To provide convenient, inviting and competitive on-base canteen services that contribute to a pleasant and satisfying work environment and which supports the attraction and retention of ADF personnel.

To operate on a commercial and self-supporting basis, thereby generating sufficient surplus funds for disbursement to welfare and trust funds for the benefit of members and their families.

OUR MISSION

- ▶ Provide convenience food and everyday essentials through a variety of retail options
- ▶ Deliver value for money across a suitably broad product range
- ▶ Support the local base communities
- ▶ Maximise new business opportunities that will ultimately benefit members and their families

OUR VISION

AAFCANS exceeds its obligations in fulfilling its purpose, is well regarded by customers and stakeholders alike and is fully accepted as an integral part of the Defence community. The business is capable of responding to market forces and significant Defence demographic changes and has the monetary, operating and intellectual freedoms to do so. When cash flow permits, surplus funds will be disbursed to selected amenities, trust and welfare funds for the benefit of members and their families.



OVERVIEW

The Army and Air Force Canteen Service (AAFCANS) also trading as Frontline Defence Services is a trading organisation established under the Army and Air Force Canteen Service Regulations 1959 made under the Defence Act 1903. It is a Commonwealth Authority which for the purposes of the Commonwealth Authorities and Companies Act 1997 and the Auditor-General Act 1997, operates within the Defence portfolio.

The Chief of Army and the Chief of Air Force own Frontline on behalf of their officers and enlisted personnel.

Other key stakeholders include:

- ▶ The responsible Minister
- ▶ The Chief of the Defence Force
- ▶ Customers (ADF members and their families, reservists, Defence civilians and contractors, former Defence members and their families)
- ▶ Amenity and welfare funds
- ▶ Frontline's employees
- ▶ Suppliers and others

Under the regulations, Frontline is to conduct its operations on a commercial and self-supporting basis, with the aim of providing profits sufficient to permit distribution of surplus funds for the benefit of members of the Army and the Air Force and their families.

Frontline offers the following 'core' business lines:

- ▶ Canteen services comprising food, beverage and convenience items
- ▶ Wholesale supply of alcohol and other requirements to messes and clubs
- ▶ Vending
- ▶ Dry cleaning services
- ▶ Postal services
- ▶ Fuel

As at 30 June 2007, Frontline or its agents operated on 27 Army and Air Force bases and four joint ADF facilities throughout Australia. The service was provided from direct operations on nine bases, 15 under a profit share (PS) arrangement with Australian Commercial Catering Pty Ltd in New South Wales, Victoria and South Australia. The remaining seven bases are serviced via Licence to Trade agreements with independent operators.

The Frontline network (direct operations and PS) as at 30 June 2007 included:

- ▶ 28 Canteens/Cafés including convenience items and dry cleaning
- ▶ 2 Petrol Outlets
- ▶ 20 Mobile Food Vans
- ▶ Total Service Vending on 28 Army and Air Force bases

Additional services provided at the major bases through Licence to Trade agreements are:

- ▶ 15 Financial Services
- ▶ 1 Defence Housing Australia regional office
- ▶ 27 Hair and Beauty Salons
- ▶ 9 Food and Beverage Operations
- ▶ 7 Service Stations and Automotive Repairs
- ▶ 1 Dry Cleaning Agent
- ▶ 2 Newsagencies
- ▶ 1 Post Offices
- ▶ 1 Photographer
- ▶ 1 Magazine Publisher



ENVIRONMENTAL FACTORS

The majority of Frontline's turnover is derived from across the counter retail sales of food, beverage and convenience items. Mobile Food Vans and sales of alcohol and other beverages to individuals, messes and clubs on base, provide further and significant income.

The past three to four years have seen some major and highly significant changes to Frontline's trading environment. The associated impact of these factors on the organisation's trading result has been considerable. These changes include:

- ▶ Increased operational tempo and the numbers of troops deployed on operations has resulted in a commensurate reduction in the numbers of base personnel using Frontline's services;
- ▶ The decreased availability of on-base accommodation, its standard and the consequential preference of Service personnel for off-base accommodation resulted in a significant reduction in patronage of on-base recreational facilities;
- ▶ The removal of taverns from the operational mix has reduced sales turnover and profits in key product lines;
- ▶ The encroachment of civilian population and commercial centres around existing bases and a resultant increase in competition for Frontline customers;
- ▶ Generational shifts in customer attitudes and preferences away from the traditional snack bar type outlet towards more contemporary dining options;
- ▶ Frontline's facilities, many of which were built in the late 1940's have not been maintained to an acceptable standard and are now in the main dilapidated, unattractive to customers and in some cases, unhealthy;
- ▶ Over time, ADF personnel have developed a mentality of expecting and receiving discounts or preferential pricing on the majority of goods and services purchased. What is now the cultural norm is compounded by the increasing number of subsidies or benefits provided as part of the individual's conditions of service package and the propensity of civilian businesses to offer preferential pricing or discounts to Defence members; and

- ▶ Within a standard commercial trading environment, healthy margins can be earned on those goods offered as part of Frontline's core product range and therefore maintaining overall profitability is rarely a problem but, Defence is not a normal retail environment. On one hand, margins must be maintained at a higher than normal level to maintain self sufficiency and provide substantial disbursements, while on the other, Frontline's customers expect and demand a lower price for goods and services than that which they would normally pay for similar products on the outside.

Unfortunately, Frontline did not anticipate these events and due to its structure and the trading restrictions placed upon it, the organisation was not sufficiently agile to mount an effective response to these changes. Despite this Frontline continued to provide a service which in many locations was not commercially viable. To ensure that Defence personnel posted to remote locations, smaller bases or on exercise and operations continued to have access to a reliable and consistent retail offer, Frontline cross-levelled any profits achieved to underwrite the losses made at the poorer performing outlets. Consequently, the organisation suffered a significant decline in profitability and at the commencement of the 2006-7 financial year, it was in a very poor financial position.



CUSTOMER ATTITUDES AND PERCEPTIONS

Since Frontline's purpose is to provide on-base canteen services in support of Service personnel, it is logical that some effort should be devoted to determining the customers' perceptions of base life; Frontline as an organisation and; what their requirements are now and in the future. In April 2007, an extensive research project was undertaken to properly determine customer attitudes and to further explore the key areas of dissatisfaction. The research aimed to:

- ▶ Gain a better understanding of customers' attitudes and perceptions towards Frontline
- ▶ Understand what products and services Frontline should deliver and to what standard
- ▶ Identify the core value proposition

The research focused on the people, their life on base and the Frontline brand and image. The key insights revealed by the research were that:

▶ PEOPLE

Frontline's customers are straight forward, down to earth people who:

- see life in the military as a job, not a lifestyle choice
- have an attitude of expecting and receiving discounts
- believe to some degree that the 'system' is against them

▶ LIFE ON BASE

The majority of those Service personnel surveyed:

- stated that life on base is monotonous and overwhelmingly military, especially for those who 'live in'
- agreed that having mates and attractive venues on base in which to socialise makes this more bearable
- acknowledged that being able to live off-base offers an escape and a break from the military environment and allows them to view their job as would any other worker
- valued and appreciated the opportunity to enjoy better quality housing and to engage with the wider community

▶ FRONTLINE'S IMAGE

From the customer's perspective Frontline has:

- a poor image and reputation which results from long standing perceptions that it is overpriced in comparison with competitors and that very little of the profits made are returned as disbursements to the various Service amenities trusts and funds. Moreover, at the soldier level, the impact of Frontline's disbursements is negligible and consequently the individual serviceman or woman has little knowledge of how much has been contributed to their unit or where that money has been spent. To them there is no established relationship between Frontline, its profitability and the downstream benefits realised through disbursements.
- no real presence on base and its facilities are decrepit, unattractive and totally lacking in atmosphere
- a product offering that is of poor quality and is inconsistent
- a money hungry attitude, is overpriced and a "rip off"

Of critical importance is the fact that customers now view Frontline as just another 'Civilian' contractor who is there to make a corporate profit and which contributes little to the overall barracks or base community. This stems from a poorly planned and researched name change from AAFCANS to Frontline circa 1997, which did not resonate with the demographic. Thus, the long-term relationship which dates back to the establishment of the AIF Canteens Service in 1915 and the value of support provided by the company and its successors since that time, has been lost.

These negative associations contribute to an ongoing cycle of distrust as customers believe they are being taken advantage of and not supported. In turn they don't want to support Frontline.



STRATEGIC CHALLENGES

The environmental analysis also revealed a number of strategic and longer term challenges which must be considered and addressed by this plan. The most important of these are listed below.

- ▶ **INDIVIDUAL UNIT PRODUCTIVITY AND PROFITABILITY** – Frontline needs to urgently address the unacceptable performance levels in directly operated outlets because without profitability, the challenges under relationships and reputation cannot be met.
- ▶ **RELATIONSHIPS** – Frontline’s ability to maintain a strong and supportive relationship with Defence will be critical to the organisation’s ability to become financially self-sufficient and to maintain this for the longer term. Should Frontline’s current status as part of the Defence community be placed at risk, the potential flow on effects, such as the requirement to Market Test the organisation against external service providers, may significantly impact organisational viability.
- ▶ **REPUTATION** – Frontline remains vulnerable to Defence and customer opinion and negative perceptions and therefore must counteract this by excelling at the basics of its operation and delivering on financial sustainability. A general lack of knowledge of where Frontline fits within the Defence community combined with a poor understanding of Frontline’s role and position in the provision of amenities and canteen services in support of the ADF creates an environment within which reputational damage can easily occur.
- ▶ **COMPETITION** – Ongoing population growth in most centres has increased the number of commercial competitors located within a short walk or drive from the majority of military bases. Equally, the encroachment of civilian residential precincts in close proximity to bases increases the availability of off-base accommodation for single service personnel. When combined with the change in lifestyle and consumer preferences, these factors can have a significant impact on the customer base, pricing and ultimately profitability.
- ▶ **EXTERNAL CONTRACTORS AND THEIR FREEDOM OF ACTION** – The presence of external contractors within the Defence environment, their freedom to operate unchallenged on key bases and in joint establishments such as Russell Offices, when combined with their capacity to retain earnings for their own commercial benefit, further weakens Frontline’s position and its ability to achieve greater market penetration and expansion.
- ▶ **REPAIRS AND MAINTENANCE OF FACILITIES** – The majority of facilities from which Frontline operates, are in a poor state of repair, are unattractive and in some cases are unhealthy for patrons and staff alike. The Defence Support Group (DSG) is responsible for maintaining and improving Frontline’s facilities to a level where they remain attractive to customers. Should funding not be made available to effect these repairs, this will significantly impact Frontline’s ability to operate as a profitable entity.
- ▶ **REMEDiation AND UPGRADE OF FACILITIES** – The lack of a long term facilities upgrade and maintenance program has allowed many Frontline outlets to deteriorate to the stage where they are now an OH&S issue and some also breach the relevant Australian and New Zealand Food Standards codes. In parallel, and as a result of the poor image presented by these outlets, customer patronage has also decreased as they actively seek to avoid what they see as run down and unhealthy premises which are devoid of atmosphere.

It is evident that if Frontline is to overcome these challenges, both major operational and marketing changes are required. The organisation must focus on the changing needs and expectations of its customers and develop sufficient flexibility in its business operating systems to meet these requirements. Concurrently, these changes and methods of service delivery must continue to be profitable and not reliant on Defence supplementation to underwrite normal trading losses.

OPPORTUNITIES

There are a number of opportunities which Frontline can use to good effect in the transition from its current state to profitability. The organisation can:

- ▶ Capitalise on Defence’s renewed focus on Frontline, the establishment of better communications between both entities and the guarantee of financial support for continuing to operate in an unprofitable environment when requested to do by Defence or where base populations have been significantly reduced as a result of Defence operational activities.
- ▶ Maximise the benefits of its unique position within the wider Defence community to deliver an improved range of canteen services, amenities support and other activities which meet the needs of military personnel and their families throughout Australia and on deployment overseas.
- ▶ Take full advantage of its unrestricted access to its target market through its on-base presence and alignment with the customer base.
- ▶ With the right infrastructure, provide goods and services to its customer base more efficiently and cost effectively than can an external contractor.



THE ROAD AHEAD

Frontline's key offer is providing convenience and everyday essentials to personnel and associates on base. Its major emotional strength is that it provides personnel with the opportunity for a break and an avenue of escape from the military work environment and the structure that comes with this. The current perception is that Frontline is overpriced, offers plenty but delivers little. Customers distrust Frontline and therefore do not want to support it.

Frontline requires both **major operational** and marketing changes to win customers over. The organisational objectives listed below identify the priority areas for change and provide the basis from which the marketing and operational themes and strategies were developed.

ORGANISATIONAL OBJECTIVES
1. Deliver operational excellence through a competent and fully trained workforce using standard operating policies, procedures and controls.
2. Build a strong and capable workforce through targeted recruitment, training, development and retention strategies.
3. Foster a sense of ownership and support among key stakeholders by improving relationships through customer service delivery, better communications and marketing.
4. Become self sufficient and commercially viable by developing and implementing profit retention programs in order to resume financial disbursements to relevant Service welfare and amenities funds.
5. Develop and execute a competitive pricing strategy to dispel the current negative perceptions surrounding Frontline's retail offer.
6. Improve the product mix and quality to meet changing customer preferences and requirements.
7. Improve service delivery and back of house systems and processes to deliver enhanced retail governance and better integrity in data and financial information.
8. Upgrade and remodel facilities to create a more pleasant and inviting atmosphere.
9. Change brand and identity to re establish Frontline as a Defence organisation.
10. Increase involvement with the local base communities.
11. Resume support to operations.
12. Take advantage of and develop new business opportunities as they arise through contract renewal or Defence demographic changes.

THE PLAN AT A GLANCE

The diagram below graphically depicts the relationship between Frontline's purpose and mission, the four core business themes and their subordinate strategies. These are supported by four operating themes. While of strategic significance in their own right, the operating themes enable and underpin the business strategies. Additional detail on each theme and their strategies is provided in the following pages.

FRONTLINE'S PURPOSE

To provide convenient, inviting and competitive on-base canteen services that contribute to a pleasant and satisfying work environment and which supports the attraction and retention of ADF personnel.

To operate on a commercial and self-supporting basis, thereby generating sufficient surplus funds for disbursement to welfare and trust funds for the benefit of members and their families.

FRONTLINE'S MISSION

- ▶ Provide convenience food and everyday essentials through a variety of retail options
- ▶ Deliver value for money across a suitably broad product range
- ▶ Support the local base communities
- ▶ Maximise new business opportunities that will ultimately benefit members and their families



THEME 1: DIRECT TRADING OPTIONS

Frontline's customers expect to get discounted prices. When combined with their belief that Frontline is overpriced, the entire pricing issue has ceased to become a rational argument. Consequently, any attempts to demonstrate that Frontline's prices are comparable and just as competitive as those found in the commercial sector have failed. Since the bulk of Frontline's business is now the direct retail of food and convenience items there is a pressing need to address and counteract these negative perceptions and build better relationships with customers.

Currently, our customers do not see any relationship between Frontline, its profitability and the downstream benefits realised through disbursements. They view Frontline as an organisation that is "unsupportive" and which is "ripping them off" due to the perceived high prices that are charged. This attitude increases the high levels of buyer resistance already experienced. Any initiative to improve the service has also been met with little support from the customer.

It should be recognised and understood that Frontline is a service organisation and not a commercial retailer. Therefore, apart from making profits sufficient to allow annual capital and operational expenditure and to maintain cash at bank at a level which ensures financial sustainability, there is no requirement to set profit margins any higher than that which guarantees this level of profitability.

The following direct trading strategies are designed to tackle the pricing issue head on. They also ensure that margins are set at the optimal level to ensure organisational profitability while signalling that any requirement to operate on an unprofitable basis is underwritten by the stakeholder which requires the unviable service.

For these strategies to be successful, Frontline must have improved internal processes and procedures to the extent where all store layouts meet customer expectation in terms of the products offered and that all staff are trained in customer service techniques and deliver the best possible level of service.

PRIORITY INITIATIVES

- ▶ Ensure that standard operating procedures are followed so that consistent standards of presentation are achieved across direct trading outlets
- ▶ Ensure that productivity benchmarks are refined and a productivity improvement program implemented to reduce current outlet cost structures.
- ▶ Ensure that profitability based on outlet sales mix is achieved through introduction of a profit retention program.
- ▶ Ensure that staff are fully trained and competent to excel in the basics of the operation.
- ▶ Effective use of competitive, psychological and discount pricing strategies to counteract negative perceptions.
- ▶ ADF discount plan implemented on key items.
- ▶ Frontline provides regular (monthly) benchmark data to the Base Command team to support the pricing promise.
- ▶ Develop management reports to determine core trading hours and profitability.
- ▶ Work with the critical profit variables (Sales, GP%, employee expenses and stock turns) to achieve the optimum GP% and EBITDA for each outlet.
- ▶ Renegotiate the current GP% KPI in the Defence agreement to reflect the revised profitability requirement.
- ▶ Develop new mechanisms to better measure levels of support.
- ▶ Develop a new disbursement methodology to better reward that support.

STRATEGIES	TARGET OUTCOMES
1.1 Excelling at the Basics	<ul style="list-style-type: none"> ▶ Stores are fully merchandised and operated to the standards set out in the Standard Operating Procedures. ▶ Management and staff are fully trained and competent.
1.2 Competitive Retail Pricing	<ul style="list-style-type: none"> ▶ Upward pressure on pricing reduced through introduction of profit retention programs. ▶ Upward pressure on pricing reduced through implementation of productivity improvement programs. ▶ Retail prices offered are competitive with or better than comparable stores within proximity of the base on like items. ▶ Established loyalty programs which reward the customer for their patronage and support. ▶ Tactical product and service changes implemented to change perceptions.
1.3 Operate canteens at critical profitability levels	<ul style="list-style-type: none"> ▶ Making a modest profit to a level which allows for annual capital and operational expenditure and ensures long-term financial sustainability in terms of retained capital (\$2.5m cash reserves). ▶ Canteens operating as a break even prospect and remain free of apportionment of Head Office costs. ▶ Head Office operating as a separate cost centre and is developing new revenue streams to offset corporate overheads and expenditure. ▶ Excess capital over and above that required for sustainability and forecast capital and operational expenditure is disbursed.
1.4 Selective disbursements	<ul style="list-style-type: none"> ▶ Recommended disbursements as short term changes are embedded and financial stability has been achieved. ▶ In the interim, continue support to individual unit funds through supplier royalties. ▶ Short term (1-5 years) – Surplus funds retained for internal improvements. Excess above requirement may be disbursed. ▶ Long term (5-10 years) – Disbursements recommenced on the following basis: <ul style="list-style-type: none"> – Re-establish support to Service Relief Trust Funds. – Offer increased benefits to the customer by using a portion of surplus funds to reduce retail prices at the canteens.

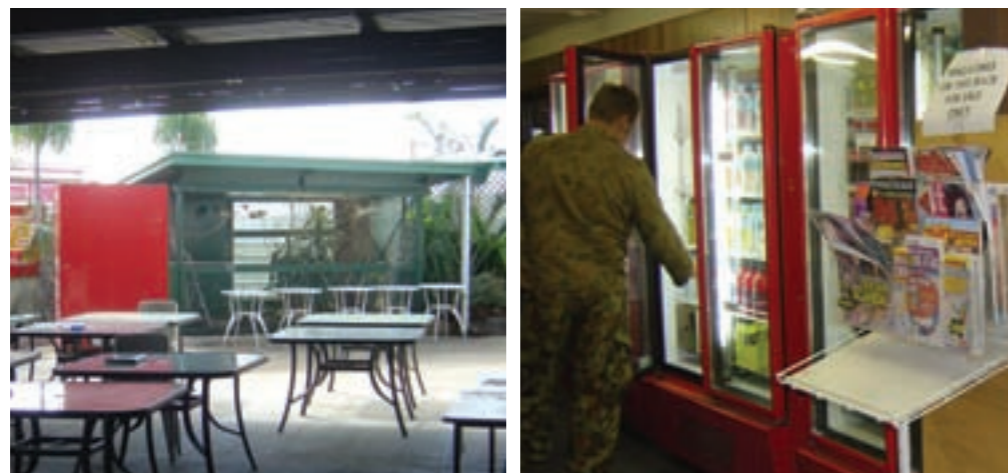
THEME 2: INDIRECT TRADING

Additional opportunities exist to generate revenue and benefits for both Frontline and the customer without increasing work effort and associated costs. Some of the strategies listed below have been tried previously or are currently in place but fragmented and require work to maximise the potential.

A conservative estimate places the level of total vending sales across the ADF at approximately \$5m. Many of these vending machines are operated by third parties and the commissions paid directly to units or sub-units using these machines are minimal (6-8% of sales) at best. There is no governance or financial control over whom or what organisation is the beneficiary of these commissions, thus the potential for fraud is extremely high. The overall lack of control of a disparate and unknown number of civilians who access the base to refill machines and no visibility of what is actually being put into the machines, creates a significant security risk. Finally, under the Land Acquisitions Act 1906, unless provided with a mandate to conduct commercial activities on Commonwealth property, these third party operators may be operating illegally. The knock on effect is that Defence may not fully comply with the Act.

Given the ADF's current operational tempo and continued participation in overseas operations, Frontline and the 39th Personnel Support Battalion (39 PSB) need to consolidate our collective ability to deploy and provide amenities support to operational forces. This requires a collaborative approach to the development, testing and proving of training modules, supply chain arrangements and procedures to reach an appropriate level of readiness and effectiveness in order to support potential or ongoing tasking.

The Defence Agreement currently provides for the reimbursement of lost revenue from conducting canteen services due to reductions in base populations through operational deployments or major exercises. Currently there are some issues surrounding the methodology used to calculate the impact of these troop movements and the mechanism for reimbursement. There is a requirement to revisit the current Defence Agreement to clarify these issues and to provide Frontline with some certainty as to the level and timing of these payments.



STRATEGIES	TARGET OUTCOMES
2.1. Vending machines	<ul style="list-style-type: none"> ▶ With the support of DSG, Frontline controls vending operations on all bases (including Reserve depots). ▶ Increased commissions paid to unit trusts, welfare funds and clubs as a result of revised supplier agreements. ▶ Sponsorships and donations to units and clubs funded from the balance of commissions. ▶ An increased number of machines in residential and work areas and an increased range of products offered (hygiene essentials, packaged food) meets out-of-hours service requirements. ▶ Reduced potential for fraud and audit processes assisted through the placement of signage on each machine which clearly identifies the beneficiary and the commissions paid.
2.2. Support to operations	<ul style="list-style-type: none"> ▶ A new business model for the provision of amenities support to operations is developed and implemented. ▶ Support to operations provided on the basis of: <ul style="list-style-type: none"> – AS led - Frontline supporting. – Coalition led - Frontline supporting where possible/when requested. Niche products. – Exercises - Frontline supporting when > 1500 troops involved. Used as training vehicle for operations.
2.3. Reimbursement for reduced base populations	<ul style="list-style-type: none"> ▶ Defence Agreement is revised to ensure the methodology used to calculate troop movements is simplified. ▶ Formula in Defence Agreement is revised to increase utility and accuracy in calculations. ▶ Established links and improved communications with the Base Command team enables more precise tracking of troop movements. ▶ Defence reimbursement for trading losses is the norm and ensures no reduction in service for remaining personnel.

PRIORITY INITIATIVES

- ▶ Gain DSG support to eject third party vending machines from all bases.
- ▶ Gain unit CO cooperation and agreed compliance with above.
- ▶ Obtain Ministerial and Chief of Joint Operations agreement for Frontline to recommence support to operations.
- ▶ In conjunction with 39 PSB, develop a Standing Agreement and operating model which clearly articulates the roles and responsibilities of each organisation.
- ▶ Develop a training model which exploits the benefits of co-location in Gallipoli Barracks.
- ▶ Validate tactics, techniques and procedures for support to offshore operations through support to major Defence training activities and exercises on-shore.
- ▶ Develop a new method of allocating profits made offshore to units and Service amenities funds which actually benefits those units deployed.

THEME 3: JOINT VENTURE OPERATIONS

In an effort to provide a more consistent and better quality food program across the country, Frontline has partnered with Australian Commercial Catering (ACC) to operate food service outlets in various locations. Frontline will retain overall responsibility for these outlets, but ACC will run the daily operations. Originally established on six bases in Victoria and South Australia, this partnership has now been extended to a further nine bases in New South Wales. The expansion helps Frontline to deliver a consistent food offer across the operation while keeping the overall costs of running a national food service program in check.

Building on the successes of the ACC partnership, there is considerable scope to provide other services to servicemen and women through the development of collaborative arrangements with national suppliers and locally based organisations. The following strategies outline the potential to do so and the options currently under consideration.



STRATEGIES	TARGET OUTCOMES
<p>3.1 Food and beverage</p>	<ul style="list-style-type: none"> ▶ Australian Commercial Catering is used to sustain canteen operations in NSW, VIC and SA under a profit share arrangement. ▶ In the short term, no further expansion of this arrangement is anticipated. ▶ In the longer term and in order to establish solid relationships with personnel during their first year in service, there may be a requirement for selective re-acquisition of some outlets, particularly training establishments.
<p>3.2 Electrical, lifestyle and other products</p>	<ul style="list-style-type: none"> ▶ Partnered with credible national wholesalers/retailers to provide alternative, competitive and convenient shopping solutions.
<p>3.3 Retail concessions</p>	<ul style="list-style-type: none"> ▶ Effectively using small commercial operators to provide non-core services for example hairdressers, newsagents and postal services. ▶ Actively seeking to provide additional commercial services of benefit to base populations. ▶ Longer term, become the provider of all commercial amenities services to the ADF.

PRIORITY INITIATIVES

- ▶ Determine the ACC core operating strengths in providing the food offer and establish similar characteristics within the Frontline directly operated outlets.
- ▶ Survey customers to determine which types of products meet their needs and how best to facilitate supply.
- ▶ Use licence renewals to facilitate a measured improvement in the quality of Licenced Traders and the variety of services offered.

THEME 4: FUTURE OPPORTUNITIES

Within the wider ADF, other commercial operators have been allowed to establish themselves on Commonwealth property and some now provide similar services as those offered by Frontline. These organisations have the freedom to operate unchallenged on some bases and joint establishments such as Russell Offices. Since there is no requirement to pay Defence a contract fee or to return a percentage of earnings to service amenities funds, all profits made are retained for the organisation’s own commercial benefit. As a result, Frontline is quarantined from a large part of its mandated customer base, its overall position is weakened and significant amounts of money which would normally be returned to the service personnel who patronise these businesses, exits the Defence organisation.

To grow the business, Frontline requires greater market penetration than it currently has. For example, there are approximately 12,164 ADF personnel working in the ACT including 5,735 public servants. Apart from the staff and cadets at RMC which are serviced via a Licensed Trader, Frontline doesn’t have access to the remainder of this demographic which represents 14% of the total available market. Other initiatives which maximise the potential of current and future ADF growth in the northern bases will also assist in achieving this aim.



STRATEGIES	TARGET OUTCOMES
4.1 Target contract renewals	▶ Actively competing for related Defence contracts due for renewal eg. Russell Offices and Campbell Park cafeterias.
4.2 Optimise ADF demographic changes	▶ Expansion of core business and re-acquisition of related concessions linked to ADF base population expansions under the Hardened and Networked Army and Enhanced Land Force initiatives.
4.3 Market expansion	▶ In support of the above strategies, additional outlets have been opened or other services offered to better target areas of the ADF population that Frontline previously did not reach or from which they were excluded. ▶ Purchased competitors in key growth areas.
4.4 Market penetration	▶ Create an ADF buying service which offers members added discounts over those normally received from commercial retailers. ▶ Store value card and flash discounts introduced.

PRIORITY INITIATIVES

- ▶ Develop specific offers which target a wider spectrum of Service families, ADO civilians and cadets.
- ▶ Tender for “like” business in Russell Offices, Campbell Park offices and other joint ADF facilities.
- ▶ Explore options to facilitate links between external suppliers and Frontline’s customer.

THEME 5: NEW BRAND AND IMAGE

The recent customer attitude research focused specifically on the customer's overall perception of the Frontline brand and image, its strengths, weakness and personification.

It was discovered that the canteens and thus the Frontline brand evokes the notion of 'everyday' in that they provide personnel with a break from their military life, work environment and the messes.

The role of the canteen in providing the convenience of everyday essentials is seen as a crucial part of life on base. Frontline is well regarded for offering takeaway food, decent coffee, emergency essentials and the mobile food vans.

However, the research revealed an alarming level of distrust of the Frontline brand because of perceived injustices. Frontline is seen to be overpriced and a "rip off" which has led to a perception that someone somewhere is making a lot of money and that very little of this is being returned to the troops through disbursements. Moreover, because the majority of Defence personnel have no understanding of the history of Frontline and its association with AAFCANS, there is no inherent loyalty and consequently they resent being told that they must purchase from Frontline.

Due to its lack of any real presence on base, the poor state of facilities and the recent organisational 'failures', Frontline's brand, image and personality is tarnished. The organisation is widely seen as cheats, unsupportive, tired and most damning of all, as just another 'Civilian' contractor.

The name 'Frontline' carries too many negative associations. If people are going to change the way they feel about the brand, the name and more importantly the product offer, must change. The following strategies outline our plan to bring about this change.



STRATEGIES	TARGET OUTCOMES
<p>5.1 Develop a core brand idea.</p>	<ul style="list-style-type: none"> ▶ Frontline's role re-defined in the eyes of the consumer. ▶ The core offer has been developed within the following parameters: <ul style="list-style-type: none"> – The core offer is sustenance: food and drink, convenience and everyday goods. – The history is about being supportive: AAFCANS and its predecessors supporting troops in all conflicts since WW1. – The watchword is service.
<p>5.2 Refine the organisational personality</p>	<ul style="list-style-type: none"> ▶ Organisation is repositioned as one with old-fashioned values but which remains contemporary to the customer. ▶ The new personality is typically Australian but embodies the Defence ethos and its personnel (Aussie, strong, fresh, can do, fair go). ▶ Adopted the "Hero" archetype. Brave, powerful and compassionate. Strong, supportive, admired and will fight for others. These traits will help Frontline win customers over.
<p>5.3 Establish a new brand identity</p>	<ul style="list-style-type: none"> ▶ The new look and feel of the brand reflects the personality – very Australian, not too military. ▶ Reverted to the name AAFCANS enabling familiarity, trust and credibility, and the mentality that the organization is 'one of us'. ▶ Drawing on heritage (since 1915) for image look and feel.
<p>5.4 Have a single brand across all operations</p>	<ul style="list-style-type: none"> ▶ Delivering one single brand which is more powerful and enables Frontline to consolidate its relationship with customers and deliver various proof points of the brand promise. Frontline's presence is improved and the impact on base and future opportunities for growth are also improved.

PRIORITY INITIATIVES

- ▶ Develop an immediate communication strategy to raise awareness of Frontline's role and history among customers and stakeholders.
- ▶ Establish indicators for correct timing for name change ie. when most of the operational changes are successfully in place.
- ▶ Create, research/market test a new name and brand identity.

THEME 6: CAPITAL WORKS AND INFRASTRUCTURE

Currently the majority of facilities from which Frontline operates are in a poor state of repair, are unattractive and in some cases are unhealthy for patrons and staff alike. In accordance with Schedule 6 of the Defence Agreement. Obviously, this comes at a cost and any funding required to conduct facilities works must be forecast and budgeted for in accordance with extant processes.

With the large number of major infrastructure projects in progress, there is a prime opportunity to link many of Frontline's requirements to these major projects, particularly those targeted at living and working accommodation upgrades. Since there is likely to be a direct impact on Frontline from a number of these, Frontline must be included in the consultative process and have some input to the User Group deliberations. This must occur earlier in the project planning cycle rather than later. The advantage of this approach is that any funding that can be allocated comes from the various projects and not directly from the Services as devolved works.

Frontline remains committed to upgrading outlets and will use its own capital to do so, however any works conducted will be limited to fit out and the upgrade of essential equipment. No expenditure will be made on repairs or remediation to the base building, as these works remain the purview of Defence through DSG.

STRATEGIES	TARGET OUTCOMES
<p>6.1 Aggressively pursue every opportunity to access Defence funding to upgrade or replace premises</p>	<ul style="list-style-type: none"> ▶ Through ongoing dialogue and a cultural change, DSG actively supports Frontline's facilities upgrade and maintenance requirements. ▶ User requirements developed and CSIR submitted for all works to \$250k through the regional FACOPS process. ▶ User requirements developed and CSIR submitted for all works > \$250k through the individual Service SO1 Facilities Management for action.
<p>6.2 Where possible, link with major infrastructure projects (Single Leap, Hardened and Networked Army and Enhanced Land Force) to drive facility improvements.</p>	<ul style="list-style-type: none"> ▶ Links established with major Defence infrastructure projects to obtain the funding allocation required for the upgrade of premises. ▶ Engage with project User Groups, project managers and consultants early.
<p>6.3 Upgrade 3-5 outlets per year over a rolling five year period</p>	<ul style="list-style-type: none"> ▶ Projects to upgrade Frontline facilities at own expense limited to fit out only. ▶ Committed to annual capital expenditure of \$500k per annum to conduct internal remediation and repairs.

PRIORITY INITIATIVES

- ▶ Standardise store footprints.
- ▶ Conduct equipment audits and identify key deficiencies.
- ▶ Complete minor facilities works plans.
- ▶ Complete equipment repair upgrade plan.
- ▶ Establish contingency fund for critical OH&S and FSP issue remediation.



THEME 7: GOVERNANCE AND ADMINISTRATION

The Minister for Defence requires that the AAFCANS board will operate the company in accordance with the Army and Air Force Canteen Service Regulation 1959 established under the Defence Act 1903 and the Commonwealth Authorities Act 1997 and associated administrative guidelines.

The overriding objective of the directors is to increase stakeholder value within an appropriate framework, which protects the rights and interests of stakeholders while ensuring that the Army and Air Force Canteen Service is properly managed. The following strategies outline how this will be achieved.

STRATEGIES	TARGET OUTCOMES
<p>7.1 Develop governance and administration policies and procedures that support the Strategic Plan</p>	<ul style="list-style-type: none"> ▶ Policies and Procedures Manual completed. ▶ Board and management exercising due care, diligence and skill in the performance of the Canteen Services through; <ul style="list-style-type: none"> – Effective Leadership – Capable Management – Diligent Monitoring – Responsible Risk Management – Clear Accountability and Responsibility ▶ The Board and management maintaining all necessary authorisations, permits, consents, licences and approvals necessary for the provision of the Canteen Services and the performance of Frontline's obligations under the Defence Agreement.
<p>7.2 Continue to meet all legislative requirements and Ministerial directions</p>	<ul style="list-style-type: none"> ▶ Providing quarterly financial reports to the Minister for Defence, and the Department of Defence. ▶ Keeping the responsible Minister fully informed on relevant activities of the AAFCANS and alert the Minister to any 'significant events' related to AAFCANS core business in a timely manner. ▶ Operating the business of Frontline to meet the needs of Army and Air Force as agreed by the Frontline Advisory Committee. ▶ Comply with the CAC Act, OH&S Act, EEO Act, Disability Discrimination Act, Land Acquisition Act, Food Safety Provision legislation and others.
<p>7.3 Improve reporting in terms of timeliness and fidelity of financial information</p>	<ul style="list-style-type: none"> ▶ Providing all reports and information required by the Defence Agreement, to assist in the determination of whether Key Performance Indicators have been achieved. ▶ Additional and more meaningful management reports developed.

PRIORITY INITIATIVES

- ▶ Develop and implement new training packages which informs staff of the importance of their adherence to the new policies and engenders compliance.
- ▶ Disseminate information regarding the strategic KPI downwards and develop subordinate KPI and other measurement indices at the operational level.
- ▶ Establish an annual program of mandatory briefs to all employees on key legislative requirements (OH&S, EEO, FSP etc) to improve compliance.



THEME 8: STAKEHOLDER RELATIONSHIPS

Frontline’s ability to maintain a strong and supportive relationship with Defence is critical to the ability of the organisation to become financially self-sufficient and to maintain this in the longer term. Within the higher echelons of Defence, there is still a degree of misunderstanding about Frontline’s role in the provision of amenities and canteen services in support of the ADF.

To address these issues, there remains a need for continued dialogue and education at all levels of Defence to ensure that the role and functions of Frontline are fully understood and the organisation is accepted as an integral part of the Defence community. High impact and demonstrative actions such as a rapid return to profitability and the development and promulgation of new disbursement processes, where funds are allocated and used correctly for the welfare and support of Service personnel, will assist in achieving this intent.

The newly introduced key documents (the DI (G) ADMIN and Defence Agreement) clearly define Frontline’s obligations in regard to the provision of amenities support and canteen services on Defence facilities and bases. These also clarify the respective roles and responsibilities of the Services and DSG in support of Frontline.

At the operational level, the Base Command team are much more positive about Frontline and its role, however they too want to see some significant improvements in communications, staff attitude and the outlet’s atmosphere. They clearly recognise the opportunity Frontline enjoys to become an integral part of base life and a key contributor to base morale, welfare and recreation. This understanding must be preserved through the actions of Frontline managers who must maintain robust and collaborative relationships with Base Commanders and the DSG Managers Base Services.



STRATEGIES	TARGET OUTCOMES
<p>8.1 Develop strategic relationships with Defence senior leadership, the FAC and key department and branch heads</p>	<ul style="list-style-type: none"> ▶ Communications strategy developed. ▶ PR opportunities maximised.
<p>8.2 Develop operational relationships with the Base Command team and DSG Regional and Base Managers</p>	<ul style="list-style-type: none"> ▶ Through positive actions and improved results, engendered a cultural change within Defence to one which is more supportive of Frontline’s aims and requirements. ▶ Continuing to refine and implement the current Service Level Agreements (SLA). ▶ Developed enduring SLA’s at the regional level.
<p>8.3 Develop tactical relationships with the customer</p>	<ul style="list-style-type: none"> ▶ Developed new disbursement model and more equitable processes for sponsorship. ▶ Providing clearer and more detailed information to customers on pricing and specials.
<p>8.4 Support the base community</p>	<ul style="list-style-type: none"> ▶ Local Frontline management is committed to work with the Base Command team to provide regular promotional activities on base to support its customers.

PRIORITY INITIATIVES

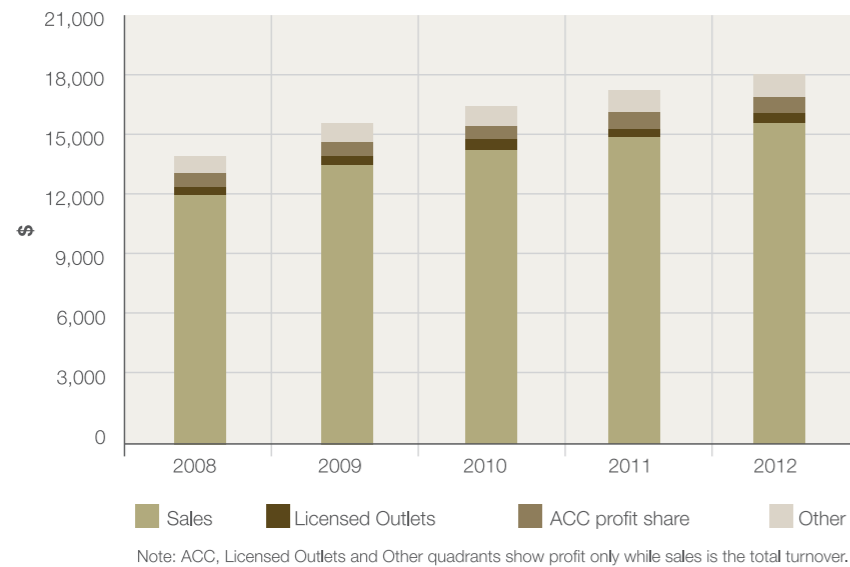
- ▶ Develop immediate communications strategy to raise awareness of Frontline’s role and history among customers and stakeholders.
- ▶ Establish and regularise a schedule of meetings between Frontline and Defence at all levels of operations.
- ▶ Include as a critical KPI for outlet managers the frequency of contact with the Base Command team, the efficacy of the relationship and tangible evidence of the outlet’s engagement with the customer.

INCOME GROWTH STRATEGIES

The strategic initiatives below provide the basis of Frontline's revenue growth during the period 2008 – 2012. The overall effect on income and cash flow is shown at Figure 1.

- ▶ From July 2007, progressive growth in sales of supplies to messes and clubs to 50% market share will contribute an additional \$57k income per year.
- ▶ From November 2007, the facilitation of electrical, technology and lifestyle products sales will provide additional incomes of between \$200-300k annually.
- ▶ From December 2007, realisation of the full potential of the ACC profit share arrangement through the transfer of loss making taverns and the closure or transfer of poorly performing business units, for example Post Offices will produce an annual income of \$640k.
- ▶ From July 2009 a growth in the base population of Gallipoli Barracks and RAAF Amberley will realise a growth in annual turnover by 6% or \$450k recurring.
- ▶ From July 2009, targeted growth in new markets and better penetration of the existing customer base will realise additional sales of \$209k per annum.
- ▶ Progressive resumption of control of all on base vending will yield an income growth of \$200k over 5 years and will return in the order of \$1 million in commissions directly to unit trusts, welfare and amenities funds.

FIGURE 1: REVENUE OUTLOOK



CAPITAL AND OPERATIONAL EXPENDITURE

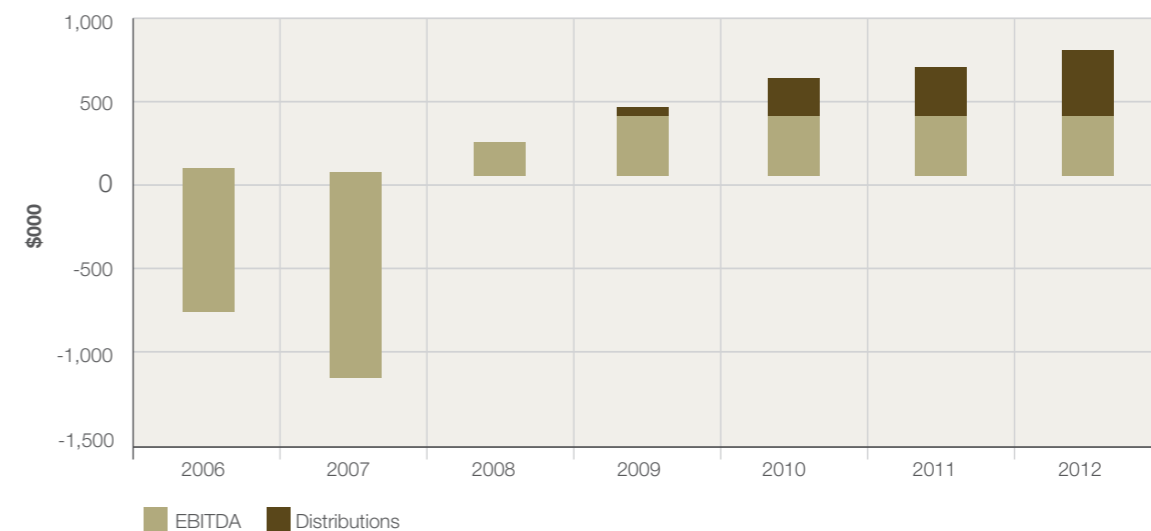
As outline in the strategies for Theme 8, Facilities and Infrastructure, Frontline will confine operational and capital expenditure to the following areas:

- ▶ **Mandatory expenditure:**
 - Designed to meet OH&S and FSP requirements where these are not issues involving the base buildings or other infrastructure. Remediation of the latter will be addresses through submission of works requests or CSIR.
- ▶ **Business sustainment:**
 - Minor facilities upgrades confined to fit out or improvement of internal store appearance.
 - Repair, replacement or upgrade of Frontline owned equipment and fittings. There is no allocation for the repair or replacement of government furnished equipment.
- ▶ **Business growth:**
 - Major internal refurbishments of premises. Again this will be confined to fit out and other internal improvements.
 - Market expansion.
- ▶ **Business improvement:**
 - Staff training and development.
 - Incentive programs for both staff and customers which are linked to the strategic outcomes.

While \$500k per year has been allocated to cover these costs, the availability of funds is contingent upon Frontline's ability to sustain its cash holding at or above \$2.5 million. Annual profits build on this base and provide the cash required for capital expenditure and potentially, disbursements. Management will control outgoings to ensure that Cash at Bank does not fall below this level.

The cash flow analysis at Figure 2 shows the projected cash flow during the life of this plan. The graph also shows the potential for the disbursement of surplus cash holdings once annual capital expenditure requirements have been met.

FIGURE 2. CASH FLOW ANALYSIS



- Notes:
1. 2007 results reflect the impact and cost of transition.
 2. Total disbursement potential for 2009 – 12: upwards of \$550K.
 3. \$550K pa committed for Capex/Opex.

MONITORING, EVALUATION AND REPORTING IMPROVEMENT

The AAFCONS Board has the overall responsibility for reviewing and evaluating the implementation of this plan. Review and evaluation will be conducted on a bi-annual basis to assess the impact and success of those strategic initiatives that have been implemented and whether they continue to be relevant within the changing market environment.

Consolidated review findings and a revised Strategic Plan will be presented to the Frontline Advisory Committee or in its absence the responsible Minister, the Chief of Army, and the Chief of Air Force each year.

Quarterly management reports will continue to be provided to the Minister for Defence and the Department of Defence in accordance with the Statement of Expectation.

Monthly financial and other reports will be provided to the responsible Minister and the Frontline Advisory Committee.

FURTHER INFORMATION

For further information on the Frontline Strategic Plan 2008 – 2012, please contact the Managing Director, Frontline Defence Services on **(07) 35115600** or send an email to **enquiries@frontlineds.com.au**.

