

“Time and again, successful long term investing comes back to the purchase, at sensible prices, of businesses with sustainable competitive advantages, run by able and honest people. Putting together a thoughtfully diversified portfolio of such stocks should see you through the market’s inevitable vicissitudes. It’s as simple, and as difficult, as that.”

Greg Hoffman, *The Intelligent Investor*, 25 March 2008

I was reminded again on a recent visit to the Blackmores headquarters in the north of Sydney of how taking non-financial or ethical factors into consideration when looking at a business can meaningfully inform a financial assessment of the business.

You can’t open a company’s Annual Report nowadays without being confronted with the phrase. “Our people are our greatest asset.” So how are these companies looking after their greatest asset? In the case of Blackmores, ten percent of after-tax profit is shared on a pro rata basis amongst all employees, who are encouraged to take up to \$1,000 (the limit the government has placed on tax effective participation in employee share plans) of this in the form of company shares. In the past four years the company has also made two separate one-off gifts of shares to all employees.

The new Blackmores headquarters employs passive solar design, optimises the use of natural light, uses an energy smart lighting system, incorporates solar chimneys to facilitate the flow of fresh air, harvests its rainwater and generates its own heat, power and hot water. It has a carbon footprint that is a fraction of an equivalent sized office building’s. It also has a subsidised gym and canteen and a 25 metre lap pool. Walking into the building, it feels like a nice place to work.

Blackmores also drives a host of community and environmental activities. The Blackmores Sydney Running Festival raised \$1.9 million this year and saw 10,000 people register for the Blackmores online training program. The “Blackmores B for Earth” campaign in Thailand encourages recycling of its containers by offering a discount on purchases accompanied by an empty Blackmores container, and the company donates a percentage of the sales of multivitamin products to the McGrath Foundation and of eye health products to the Macular Degeneration Foundation. Blackmores is also the major sponsor of its local surf club, the Bilgola Surf Club (not the most needy surf club in the country, but it is the local one). The day I was there they were discussing how they could best support the victims of the Christchurch earthquake which had struck a couple of days earlier.

Blackmores isn’t just engaging in this sort of behavior because it wants to be nice. It is behaving like this because it believes this is how it will achieve the best results for the business. If its employees are happy, engaged, motivated and act like owners of the business, if its customers are actively engaged with the business, if it is seen as a positive agent in the community then the financial measures are likely to be better than if it was a neglectful employer, took a cavalier approach to the environment and exploited its community.