



## **NUFFIELD IRELAND**

### **Farming Scholarships**

# ***How coops grow and work together***

Compiled by Andrew Gow  
2012 ICOS Nuffield Ireland Scholar

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#### Scholar Contact Details

Name: Andrew Gow

Address: Glenstal Farm, Murroe, Co.Limerick

Phone: 00 353 87 8116272

Email: andrewgow2@vodafone.ie

In submitting this report, the Scholar has agreed to Nuffield Ireland publishing this material in its edited form.

#### Nuffield Ireland Contact Details:

NUFFIELD FARMING SCHOLARSHIPS TRUST IRELAND Ltd

C/O John Tyrrell,

41 Cherrington Rd, Shankill, Co Dublin.

Phone: 087-2563501 Email: [exec@nuffield.ie](mailto:exec@nuffield.ie)

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# 1. Executive Summary

## WHY / WHO

This report is to support and help achieve the desired growth in the Irish dairy industry. It is targeted at the stakeholders in the industry who will shape this development, i.e., dairy farmers, board members, employees and policy makers. It reflects the author's experience and observations over the past number of years and endeavours to help with the evolution of a farmer owned and controlled world class integrated dairy industry, in the context of the growth potential of the non-quota environment.



## 1.1 Aim/Objective

The basic theory of a Cooperative is<sup>1</sup>: *the pooling together of individual farmer resources for a common purpose, i.e. farm profit. The greater the number of likeminded well informed farmers that partake, the more efficient and sustainable their coop will be.*

- To reinforce and rejuvenate the cooperative ethos amongst Irish dairy Farmers.
- To understand that the coop model is best placed to serve farmers better than any other, as they are the sole beneficiaries of investments, profits and efficiencies,
- To see how other internationally successful coops have educated their members, to realise the potential of fully integrating their joint businesses under one common goal,
- To investigate how information is transferred from board decisions and their implications, down the chain to farmer producers,
- For farmers to understand the importance and the connection of their daily on-farm production to the products that are manufactured and sold, and how this information is transferred.

## 1.2 Background and Reasons for study

My interest in this topic was sparked by my participation in various discussion groups, as a monitor farmer for Dairygold coop, a committee member of Dairy Ireland<sup>2</sup> and also as a promoter of our Kerrygold Brand for our Irish Dairy Board. It became very apparent that there is a very clear disconnect between Irish Dairy Farmers and the coops they supply.

I believe this situation has come about through a number of factors:

- Milk quota imposition and stagnation of on farm growth,
- Lack of direct farmer investment in their coops,
- Leading to disinterest amongst farmers to partake in the coops election systems,

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<sup>1</sup> Andrew Gow

<sup>2</sup> Dairy Ireland is a group drawn from dairy discussion groups around the country. Their aim is to encourage a world class integrated dairy industry for Ireland.

### 1.3 Methodology

This study tour spanned a period of 20 months, in preparation, research, travel and interviews. The businesses covered were the some of the most successful Dairy coops in the world. They include Arla of Denmark, Friesland Campina in Holland, Valio of Finland, Fonterra and Westland Coops in New Zealand, Murray Goulburn and Bonlac of Australia, and Dairy Farmers of America.

This report looks at:

- Definitions of success, and vision,
- How information travelled between the various electoral divisions and the board, and from board to farmers
- How each coop identified new committee members,
- How boards identified weaknesses and evaluated their performances,
- Is there a culture/system of farmer investment in their coop?

### 1.4 Results/Key findings

From the more successful coops, a number of things emerged:

- A constant transparent and compulsory individual farmer investment in their coop,
- A structured process for electing and selecting new candidates for the election to committees and boards,
- Training of board members,
- Regular updates from chairman/CEO,
- Coops/dairy businesses working together for a common benefit,
- A world view rather than national competition,
- Clear milk pricing policy,
- Clearly published **Strategy**, e.g., in an interview for this report, Kees Romijn, a Dairy farmer and Chairman of LTO Dairy<sup>3</sup> /rep to Copa, was able to instantly state the Friesland Campina Strategy: *“IFT: infant, follower, and toddler”*.

### 1.5 Implications for stakeholders

We are exporting 90% of our product, yet we are not operating on a scale to compete or ally ourselves with our international competitors.

Our competitors are at a far higher standard for training present and future committee/board members.

Our competitors facilitate constant member investment.

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<sup>3</sup> LTO is the Dutch farming organisation

## 1.6 Recommendations

- Develop a farmer's sense of informed ownership through an Annual National Coop Dairy Open Day, focusing on international comparisons and future products.
- National Strategy/Point of difference, published on all coop websites main page,
- Members not shareholders,
- Completely Integrated Model,
- Develop an open milk pricing model to transparently show product prices and trends,
- Develop Kerrygold as Dairy Brand Ireland.
- Select and elect the best new board candidates.



## 2 Introduction



As we commence this paper, it is worth noting that, 2012 was the United Nations International Year of the COOP. Today, around the globe, cooperatives have more than 800 million individual members and provide more than 100 million jobs.<sup>4</sup>

### 2.1 Did you know?

Ireland has the third-highest per capita consumption of liquid milk in the world, at 130 litres per person per annum. Only Finland at 183 litres per head and Sweden 143 litres per head has a greater per capita consumption. In comparison the fastest growing market for milk consumption, China, consume only 9 litres per head.

Ireland produces about 5.5 billion litres of milk per year. The total world production of milk is about 720 billion litres. About 600 billion litres of this comes from cows, about 93 billion litres comes from buffalos and the rest comes from sheep, goats, camels etc.

Ireland produces enough milk and dairy products to feed 52 million people.

**The world market for dairy increases by 15 billion litres every year, almost 3 times our total annual production.<sup>5</sup>**



Over the course of the last ten years, I have taken a keen interest in the future evolution of Ireland's cooperative dairy sector. We are at a major change in the national and individual earning potential of the dairy industry with the abolition of the EU milk Quota system. It is to be the biggest change in Irish agriculture for nearly 30 years.

Through involvement with top dairy farmers, the dairy industry and Dairy Ireland, I have been able to take a wider view than just that of inside the farm gate. This led me to seek a Nuffield Scholarship to get the best world view for our future challenge.

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<sup>4</sup> <http://www.nolafood.coop/about-nofc/cooperative-history-modern-statistics/>

<sup>5</sup> <http://www.icos.ie/members/dairy/>

Over the last two years I have met and been exposed to the very best in the dairy industry worldwide. For my study tour I specifically went to meet coops that would have a similarity to the Irish scenario, they includes;

Arla, Denmark,

Friesland Campina, Holland,

Fonterra, and Westland, New Zealand,

Valio, and Pellervo, Finland,

Bonlac and Murray Goulburn, Australia,

United Dairy Farmers of America, USA

Thanks hugely to the world renowned Nuffield reputation, I was able to meet, challenge and be enthralled by the thoughts, thinking, planning and foresight of CEO's and Chairmen in world dairy circles.

### **Farmer involvement**

With the stagnation of the past 3 decades, farmer involvement with and understanding of the coop industry and ethos has been poor. I set about trying to understand from other coops why in some countries this has not been the case.

I myself have been less involved in my coop than I should be, and I set about to question why? The same would also be true for a large number of well-respected and commercially successful dairy farmers.

### **Getting young people involved**

I also looked a ways of seeking out the best young people for future involvement in committees and board of directors.

### **Targets in the 20/20 report**

We are at a time when farmers are being asked to collectively fund the 50% targeted dairy expansion.

But do we truly understand why we are doing this?

What are the products and standards going to be?

How as an industry, can we educate every part, from farm to marketer as to our common strategic interest, i.e. a higher and sustainable income, both individually and nationally.

### **World view**

We are at a stage of massive consolidation of large milk processors around the world. Large national and multinational coops, private and public companies have emerged that control the whole chain from farm to consumer brands. But through my research I wanted to find out if these different company types could work together. I found, e.g., that the world's largest dairy coop, New Zealand's Fonterra, their largest competitor is Nestle, but also their biggest customer and also a joint venture partner<sup>6</sup>.

### **Information flow**

It is vitally important for farmers to receive information and understand their businesses. One of my early observations in Ireland and other countries was that when the tanker arrived, collected the milk and the cheque came at the end of the month that was the main understanding/involvement of the farmer. There is often a problem with the presentation of information from management and the board down the line through the representative structure and finally to the farmer.

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<sup>6</sup> Source, interview with Sir Henry Van der Hayden, former Fonterra chairman

## *3 Objectives and Aims*

### **3.1 Objective**

- To provide Irish cooperative dairy farmers, with a better understanding of the power they have to influence their industry,
- To provide better ways of encouraging the best people to be elected to coop committees and boards.
- To understand that the coop model is best placed to serve farmers better than any other, as they are the sole beneficiaries of investments ,profits and efficiencies,
- To see how other internationally successful coops have educated their members, from committees to boards to realise the potential of fully integrating their joint businesses under one common goal,
- To investigate how information is transferred from board decisions and their implications, down the chain to farmer producers,
- For farmers to understand the importance and the connection of their daily on-farm production to the products that are manufactured and sold, and how this information is transferred.

### **3.2 Aims**

The overall aim of this report is to see the Irish Dairy Sector grow to be the most sustainable of its peers in the Northern Hemisphere through the promotion of the cooperative system.

## 4 Vision and Ambition



*The former “conceives” while the latter “achieves”;*<sup>7</sup>

### 4.1 Strategy

*A coop does not guarantee commercial success; it’s your strategy and its implementation of that strategy*<sup>8</sup>

In interviews for this paper, with board members of Fonterra and Friesland Campina, the word strategy was used numerous times. We know there is an Irish 50% growth target, but this is just a volume increase, not a definite plan to increase dairy farmers’ income.

We need to establish what is the strategy of the Irish Dairy industry for the next 10 years. What are the strategies of the various individual Dairy Processors in Ireland and have we a common goal.

How do we define our coops to be successful? Across all the coops surveyed, milk price is the no.1 measure of success. But what is equally important is being consistent with milk price pay-out and long term planning.

In the coops researched, the aim of the published strategy was to get people to understand your strategy and believe in it.

AND

“So who are we targeting and why?” Nicola Shadbolt<sup>9</sup>

You will see in Fig 1, the multiple players in the Irish dairy industry, including the coops, and the Irish Dairy Board, using the Kerrygold label.

Across the major markets we are competing in, our competitors are formed into large international coops/private processors. These are larger than the entire Irish milk pool. For example, Friesland Campina processes 9 billion litres, nearly twice the Irish supply, or 9 times the Dairygold coop milk pool. In this chapter, examples are given of the various strategies investigated in our dairy competitor coops.

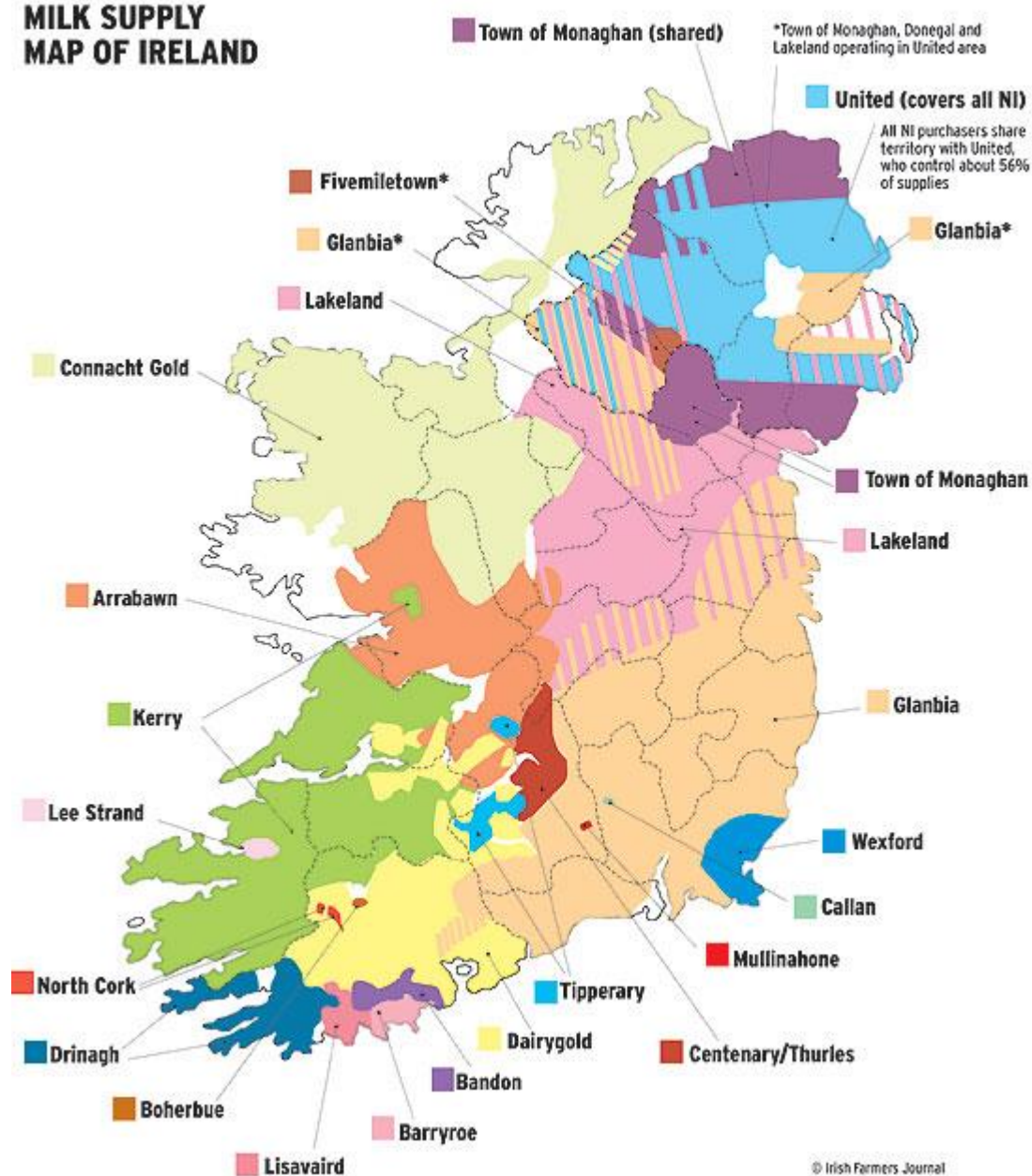
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<sup>7</sup>

<sup>8</sup> Sir Henry Van Derayden

<sup>9</sup> Prof N.Shadbolt , Fonterra Board member and Massey University

## MANUFACTURING MILK SUPPLY MAP OF IRELAND



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Figure 1, shows the diversity of Irish processing and marketing.

- Industry is comprised of 17,500 approx. dairy farmers, 36 co-ops and 13 processors who produce and process 4% of the EU's milk supply

<sup>10</sup> From [askaboutireland.ie/Irish Farmers Journal](http://askaboutireland.ie/IrishFarmersJournal)

## 4.2 Friesland Campina Strategy

- Friesland Campina is the major Dairy Coop in the Netherlands.
- It processes approx. 90% of the Dutch supply and has a membership of approx. 20,000.
- It was formed in 2008 when Friesland Foods and Campina merged.
- Since then their profits have nearly doubled from €248 million to €403 million in 2011, and a paid a milk price of nearly 39c/l in 2011<sup>11</sup>.

Below you will see published Strategy sourced from their website for both farmer members and customers to view.



*“Friesland Campina’s strategy is to increase our added value and, at the same time, ensure all the milk produced by the member dairy farmers of our co-operative reaches its full value. To this end in our strategy **route2020** we want to achieve accelerated growth in selected markets and product categories.”<sup>12</sup>*

Friesland Campina Value drivers are:

- Dairy based beverages,
- Infant and toddler nutrition,
- Branded cheese,
- Geographical growth,
- European food service
- Basic products

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<sup>11</sup> Interview with Piet Boer, Chairman

<sup>12</sup> From Friesland Campina Route 2020 plan





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- Their mission is to be the top paying Northern European coop, the most attractive coop for farmers.
- Target to pay 2c/l above guaranteed milk price.
- This is checked by LTO like the IFJ Irish milk league.
- F.C. are paying a half cent/litre for grass fed milk and marketing actively. This can be seen advertised as “Meadow Milk”, in Schipol airport!
- In an interview with Kees Romijn, a Dairy farmer and Chairman of LTO Dairy/rep to Copa. He was able to instantly state the Friesland Campina Strategy : **IFT ;infant, follower, toddler.**
- Last year F.C. ran a promotion with farmers and staff running a campaign, delivering milk directly to homes.
- Also carton labelling allows the consumer to discover the area from which their milk came from.

<sup>13</sup> Source: Friesland Campina website

### 4.3 Fonterra

The New Zealand coop Fonterra, processes approx. 17 billion litres of milk. It accounts for 25% of the country's exports.

“Strategy Refresh”, published on its website,

- Optimism New Zealand Milk,
- Grow/Build beyond current customer market positions,
- Deliver on Foodservice potential,
- Grow position in mobility, older generation products
- Paediatric nutrition growth
- Selectively invest in milk pools
- Align the business and organisation to enable the strategy



The Fonterra long term strategy is to be more specific in what markets/segments they will go after, where there is most long term earning potential, e.g., Analene for older people in Chinese cities, which helps people with osteoporosis, and is well established in Asia.

Integrated model

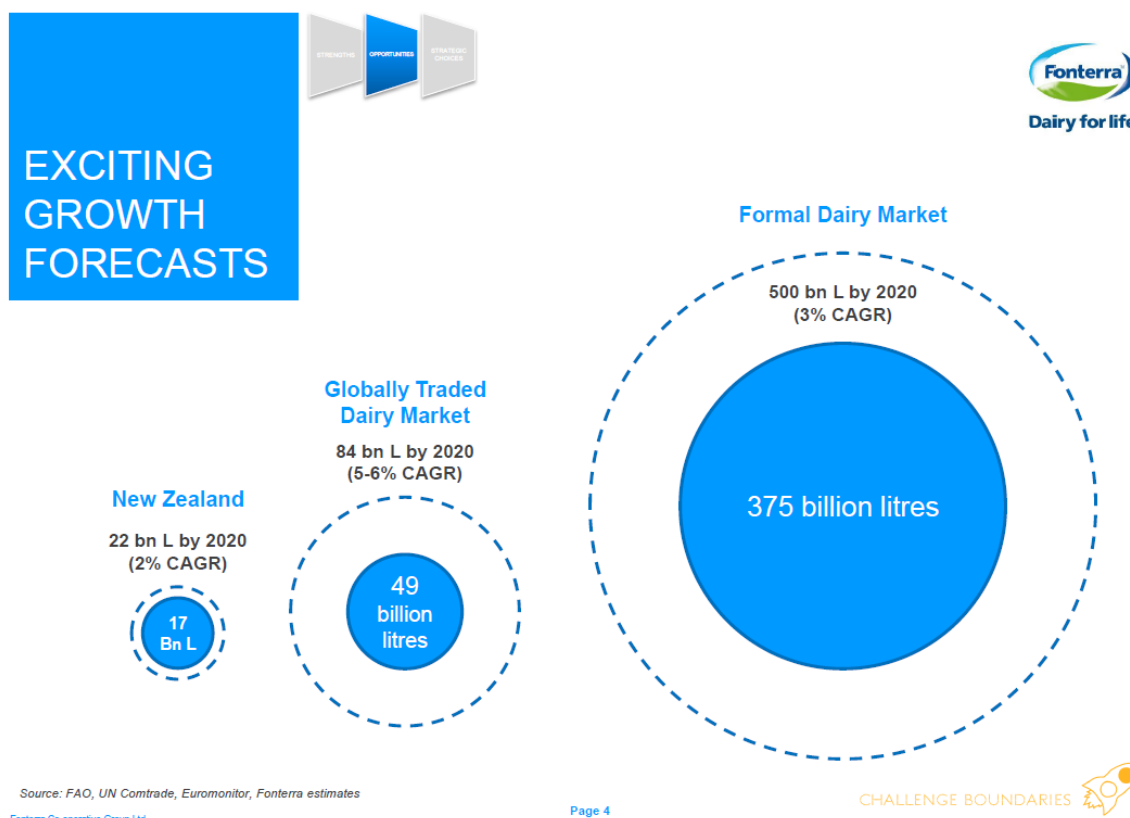
In interviews with former chairman, Sir Henry Van Der Hayden, new chair John Wilson, and board member Prof. Nicola Shadbolt, the integrated model was stressed over and over again.

This allows all parts of the process from farm to table to be controlled. It allows for enhanced efficiencies with milk collection, processing, research and marketing.

Below you will see the strengths and opportunities, etc. of Fonterra. It also shows to their members their projections for milk consumption/production growth and thus the reasons for their strategic



plan.



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(Blue circle is current production, 2012)

carg<sup>15</sup>

#### <sup>16</sup>STRENGTHS

- Access to quality milk
- Efficient farms
- **Integrated model**
- **Strong, broad product portfolio**
- Globally distinctive customer base
- Great people

#### OPPORTUNITIES

- Forecast global volume demand growth of at least 100 billion litres by 2020
- NZ could supply an additional 5 billion litres
- Milk pools will develop outside NZ

<sup>14</sup> Source:Fonterra

<sup>15</sup> Compound annual growth rate

<sup>16</sup> Strengths, Opportunities and Strategic choices are extracts from the Fonterra Strategy Refresh.

- Value growth driven by customer/consumer needs in each geography

#### STRATEGIC CHOICES

- Target geographies and nutritional needs
- Ensure strong alignment with vision
- **Fully leverage our integrated model**
- Focus where we have clear ability to win

## 4.4 Arla Foods

- Arla is a coop headquartered in Aarhus, Denmark.
- It is an exciting model as this coop has over 8000 members in 6 countries, Denmark, Sweden, Germany, Luxembourg, Belgium and the UK.



Below are extracts taken from the Arla website, to show their strategy called “**Strategy 2017**”

*Please note grass in every shot.*

“Arla wants to be the leading farmer-owned dairy company, and to achieve this, we have three strategic focus areas.”

### **1. WE WANT TO DEVELOP OUR CORE BUSINESS AND OUR THREE GLOBAL BRANDS:**

Our three global brands Arla®, Lurpak® and Castello® must all grow via their individual unique profiles.

The entire company will continue to expand the Closer to Nature™ position, with the objective of being the most natural and sustainable global dairy.



### **2. WE WANT TO CREATE GROWTH OUTSIDE THE EU**

Arla is the world’s leading producer of butter and blended products, and this also represents opportunities to increase milk sales. Our global ambition is to sell a further 50,000 tonnes of these products. We will also focus on producing more **child nutrition products** for other food companies that do not themselves have sufficient capacity or know-how.



### **3. WE HAVE TO BE MORE EFFECTIVE**

Our focus is on utilising production capacity better, reducing consumption of **energy and water**, and avoiding **waste**. We are reviewing our **packaging**, so that we can ensure the same quality and functionality, at a lower price.

Our overall objective is to save DKK 2.5 billion before the end of 2015’.<sup>17</sup>



<sup>17</sup> The numbers and quotations are taken from Arla Foods website to illustrate their strategic plan

## 4.5 National strategy, website promotion and mission statements

In research for this paper, no published Irish National Dairy Strategy was found. Results of the various coop/milk processors websites were very variable, from no website for one coop to the best for the PLC milk processors.

Comparing these websites, their mission statements and strategies, to our international competitors (as seen earlier in this chapter), it was found that we are very poor at using this technology and advertising our fantastic natural products.

Below is the mission statement from the Irish Dairy Board:<sup>18</sup>,

The IDB will become a leading international dairy organisation, rewarding customers, consumers and shareholders by delivering value through:

- World class brands
- Customer led innovation
- An international market presence
- Superior customer service
- Outstanding people

Our People and Entrepreneurial Attitude Will Deliver This Vision

However without an integrated processing and marketing coop we are placing ourselves and our employees in the existing marketing divisions at a distinct disadvantage to our competitors. This is because they can't control the supply chain to them, unlike their integrated competitors.

Glanbia plc have a very clear strategy document on their website for all to see, (<http://www.glanbia.com/strategy>)

*"Our vision is to be the leading global performance nutrition and ingredients group."*

Dairygold Coop Mission Statement

Ireland's leading farmer owned Dairy and Agri Co-Operative that delivers sustainable global solutions.

- How would any Farmer supplier relate to this?
- Leading at what?
- What are global solutions?

Below is the Arla mission statement:

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<sup>18</sup> IDB, is the Irish Dairy Board



**Mission statement:** *“Leading brand in its field in Finland and the nearby countries, and pioneering health and well-being concepts worldwide”<sup>20</sup>*

These two coop mission statements give clear targeted information statements to their members.

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<sup>19</sup> Arla mission statement from their website

<sup>20</sup> IFJ, Dairy industry focus magazine, 8 Sept 2009

## 4.6 Marketing

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*“What is your point of difference?” Prof. N Shadbolt*

We have a fantastic story to tell. Over the last few years, I have been involved in promoting our Kerrygold Brand. I took part in TV adverts for the UK to show-case the grass based natural production of our milk products, and more recently, this year undertook a new campaign, with TV chef Rachel Allen. At a press conference for food writers, the health benefits grass produced butter, being higher in Vitamin A & D, were promoted.

This year, several German food reporters visited the author's farm to see for themselves cows grazing in the fields. They were carrying out research into where different food products come from and how they are manufactured. They were informed about the length of the grazing season and how many days the cows spend at grass. They asked about the difference in milk yields here and were informed why we need maximum fertility in our cows to maximise the grass growing season.

In an interview with the chairman of Friesland Campina and in extracts from their yearbook and accounts, “**meadow grass**” was referred to numerous times. Their farmers are paid a small premium to keep their cows outdoors for 6 hours per day, 160 days per year. This is something they are actively promoting with both their farmers and consumers.

However, travelling through Holland, few cows will be seen grazing in the fields.

In Schiphol airport, there are posters there advertising and promoting cows grazing in the fields!!



Valio, too are promoting the green image. This picture is from the coop's website, and as the author travelled through southern Finland, he did not see any cows outside grazing!

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Travelling through the 3 main Irish airports, it is noticeable the vast empty spaces on walls and floors that could be advertising our best, and not just Guinness.

We completely underestimate the potential for promoting our green image. Our competitors are all using their advantage, but none have what we have. But we are not known around the world for this. In a recent speech to Nuffield Ireland, Prof David Hughes<sup>23</sup>, showed various countries and the brands connected with them. Ireland is only known for one, and it is not Kerrygold.



<sup>21</sup> From google images.

<sup>22</sup> from <http://www.valio.com/about-valio/media/>

<sup>23</sup> Prof. David Hughes is Emeritus Professor of Food Marketing at Imperial College London.

## 4.7 Conclusion and recommendations

We are at a clear disadvantage to our international peers without one national market development strategy.

- Ireland needs absolute clarity on where we will focus our product production and marketing, Our Point of Difference.
- We are at a huge disadvantage when selling our product internationally without a FULLY INTEGRATED COOP; the advantage cannot be overstated enough.
- At least 2 c/l saving<sup>24</sup> before the bigger muscle synergies kick in.
- The Origin Green campaign is welcome but needs to be pushed by all in the industry, IDB, NDC, Bord Bia, Coops, IFA, ICMSA,
- Websites are a window to the world, we have such a fantastic, green, sustainable environment, and this should be promoted together, with one message and voice.
- We should promote our tourism potential jointly with our food products.

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<sup>24</sup> From ICOS Nuffield Scholar David Murphy paper, Dairy coops for the 21<sup>st</sup> Century

## 5 Investing in your coop?



*“To understand that the coop model is best placed to serve farmers better than any other, as they are the sole beneficiaries of investments, profits and efficiencies”<sup>25</sup>*

For approx. 30 years there has been little direct farmer investment in Irish Dairy coops. This is not the case in our competitor World leading Coops.

In this section examples are given of how these businesses are funding their short and long term strategies.

### 5.1 Friesland Campina



This coop has developed a different approach to member investment. Some years ago the board decided to make a major change. They bought back all the shares from coop shareholders and reissued new **bonds** to its newly called **Members**. The Member bond values were calculated on the equity invested by the members.

The idea was to change the mind-set to being a member rather than a shareholder waiting for a return on your investment. There was often a debate/split between members who had more shares or those who supplied more milk, one looking for higher return on investment and the other a higher milk price. They also changed the “dividend payment” to a member’s “interest payment”. This is a fixed competitive rate at 3% over the 6 month Euribor rate.

Friesland Campina show the true understanding of a coop,

**To process its members product at lowest cost and return the maximum product margin to its members.**

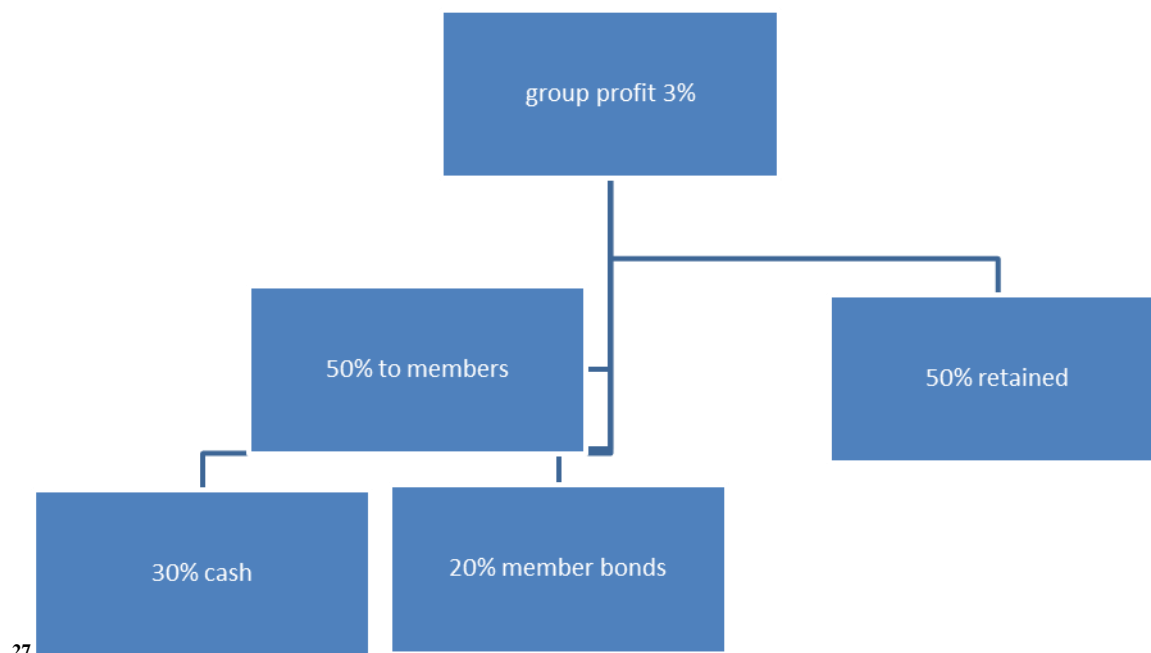
Now €500 million of member bonds and coop retained earnings, are invested as equity in the coop.

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<sup>25</sup> Andrew Gow



You will see in the chart below how the members' contribution is attained. The target milk price is to be the top paying European buyer, ie 2c/l over LTO<sup>26</sup> average price and to make a 3% profit to be distributed as seen below.



- New members joining Friesland Campina, have to invest 10 c per litre , (the total equity per member per litre is 12 c/l).
- This can either be upfront or over a 3 year period.
- If you buy an existing member farm, will not need to invest in new shares, as it is taken that you pay the value in the farm price.
- A member can expand production up to 30% per year before extra member bonds are necessary, as in No1 above.
- Can buy bonds every 2 months on internal market.
- A member does not have to cash in on retirement, and can trade till death.
- Milk price published at start of every month, every farmer knows at start of month what price he will receive for the new month.
- Top up on last year is paid in following April; price guidance is given on half year review.
- The “top up” comes in form of cash and member bonds interest, plus issue of new member bonds.

## 5.2 Fonterra

The New Zealand Coop has a different approach to others, with the highest investment per farmer and a definite distinction between milk price and share dividend.



<sup>26</sup> LTO milk league of European dairy processors.

<sup>27</sup> Friesland Campina distribution of profits

### Advance payment/13th payment

The Fonterra idea is to pay percentage of the projected milk price/value each month and as the year progresses that may be increased in line with total milk price to year end. The final payment is actually on month 15 and this includes a dividend payment on your shareholding.

*Fair value* share price, is valued by independent valuers, and based on market cap value.

Government regulation states that the farmer has only to be shared up to the value of production in any one year.

He/she can sell shares in a year of low production, and gets full market value a time of exit, either to move to another processor or retirement.

### Difference between

<ul style="list-style-type: none"> <li>Fonterra</li> </ul> <p>Milk price + increasing share value</p>	<ul style="list-style-type: none"> <li>Friesland Campina</li> </ul> <p>Milk price + bonds, i.e., fixed value share/bond with member interest payment</p>
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## Redemption

Recently Fonterra have introduced their new system to cover redemption payments. The coop is in an unusual position under its founding rules, due to its near monopoly status, stating that it has to pay out immediately to any shareholder who wishes to exit or reduce supply.

*“The Fonterra Shareholders’ Fund forms part of Trading among Farmers and the Fund is a unit trust formed under the Unit Trusts Act.*

*Units are listed on the NZX Main Board and on ASX and will be able to be freely bought and sold, in the same way as any other listed security.*

*Outside investors who are not allowed to hold shares in Fonterra, are able to invest in Units in the Fonterra Shareholders’ Fund that gives them access to the Economic Rights that they would have received if they were allowed to own a Share.”<sup>28</sup>*

The fund is due to hold NZ\$500 million to insulate the coop balance sheet from large redemption pay-outs.

## 5.3 Westland Coop NZ<sup>29</sup>



This small coop is situated on the west coast of South Island, New Zealand. It has 340 suppliers, and processed ½ billion litres.

- Suppliers have to hold a minimum of one share per kg of milk solids, but can hold up to 15% extra.
- Shares are purchased at a fixed price of NZ\$1.50/kg/ms.
- No dividend is paid on shareholding.
- Westland Coop Share could be called a membership fee, because its value is fixed, no dividend, encashment upon retirement and no dry shareholders.
- Farmers can redeem shares at any time but the coop can hold off payment for up to 5 years to offset any redemption risk.

<sup>28</sup> <http://www.fonterra.com/global/en/Financial/Fonterra+Shareholders+Fund>

<sup>29</sup> Westland coop is situated on the west coast of the South Island of New Zealand, chairman Matt O'Regan

- The company has a retention policy of 10-15c/kg/ms of profits.
- The low (by NZ standards) share value is to encourage on-farm expansion and the development of virgin land.
- Westland puts \$10,000 per person into the Westland economy; (Fonterra puts \$2,500 into the rural economy)<sup>30</sup>

## 5.4 Murray Goulburn<sup>31</sup>

Murray Goulburn is Australia's largest dairy coop.



- Fixed AU\$1 shares, min shareholding \$500.
- 0.65c/l share off take, \$6500 per 1 million litres supplied.
- 12% dividend and 1 for 10 bonus.
- You can opt to reinvest dividends in shares.
- No one can own more than 0.5% total shareholding.
- 1 share, 1 vote.
- Loyalty scheme the longer you supply, the more shares you own.
- 90% vote required to change rules about demutualisation.
- Upon cessation of supply, member becomes dry shareholder, can retain shares or encash, usually over period 2-6 months.
- "Share off take" funds redemption.
- No encashment of shares on "bad" year, but can use as security for 100% short term coop loan facility, 20% at 0% interest and 80% at market rates.
- Retained earnings policy is to maintain 40% equity in coop.

## 5.5 USA

John de Vos, ex-pat Dutchman and dairy farming at Fox Dairy, near Amarillo, Texas. He is a local council member for Dairy Farmers of America. He explained how DFA farmer's fund their coop:



- New producers invest 10cUS/cwt, until up \$1/cwt. for annual production.
- Capital investment is retained from milk cheque/dividend paid into share account,
- Max investment of \$1.75/cwt.,
- Investment redeemed upon reaching 67yrs, and can take 10-12 years to fully recover.

<sup>30</sup> Source, Westland Coop Chairman, Matt O'Regan.

<sup>31</sup> Source, MG coop, Chairman Phil Tracey interview.

In an interview with, Prof Bob Cropp<sup>32</sup>, he stated, that at present, under US tax law, farmers receive 20% of coop profits paid back in dividends; however they have to pay tax on all 100%, known as qualified investment.

The 80% part is their investment into their coop and is normally repaid over a period of 12 years upon retirement.

It is proposed to increase this farmer dividend to 30%, and with the balance 70% invested in the coop, but the farmer will have to pay the tax only on the 30% and coop pays on the balance, this is referred to as unqualified investment.

However in this new scenario, the coop does not guarantee to repay this investment, as this is the members' investment into his coop business. This will help reduce the redemption risk to the future of the coop.

## 5.6 Conclusion and recommendations

Having investigated the various coops, a number of differences emerged:

- Most coops were solely focused on their original purpose, i.e. paying back a high market return, with definite policy on retention for expansion and retirement/redemption.
- Fonterra of New Zealand was a notable exception as they are focused on two objectives, milk price and investment returns. The focus on the investment return, i.e. the share price return seemed to be a risk to the long term future of the coop. The increasing share value vastly increased the risk of large shareholders pushing for the evolution of a PLC. If this is to happen its objectives would directly conflict with that of a producer owned coop.
- In interviews with Leonie Guiney and Eddie Glass of the 'Our Coop' campaign, they clearly showed how it could be in the interests of the larger dairy farmers to sell their shareholding to the highest bidder in the future and therefore force the change to plc status.
- This is because the larger farmer could sell his high value Fonterra shares and buy into very low priced shares in another coop, e.g. Westland NZ.
- The recent developments with TAF<sup>33</sup>, only increases the risk of demutualisation due to outside non-farmer investors.
- Ian Mason of the SUN RICE coop in Australia, stated that they were at a cross roads and debating selling a portion of their shares on the ASX, therefore going down the direction feared in New Zealand. They have some shareholders who have very large shareholding (similar to the fear in NZ TAF) who want either to retire/sell shares at market value (shares currently very undervalued) or others who want outside money to help invest in the coop future.
- Members not shareholders, Friesland Campina (F.C), have a clear focus that milk price is the most important return to the farmer.
- Bonds not shares, again, FC have a loan of the farmers' money as opposed to an investment.
- Price guidance through the year, common policy through these coops, with the profits distributed through a 13<sup>th</sup> payment. Member reinvestment in the coops is usually connected to the "top-up" payment.

As we move into this new era, we must be clear why we are investing in our farms and coops,

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<sup>32</sup> , Prof Bob Cropp. Lecturer in Cooperatives at the University of Wisconsin,

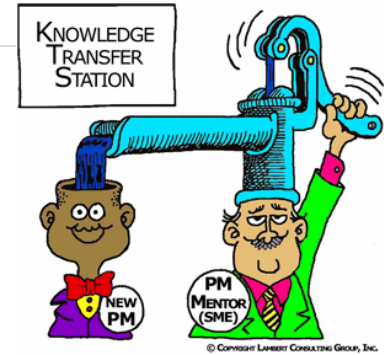
<sup>33</sup> TAF, Trading Among Farmers, a new mechanism for funding Fonterra share redemption.

*“Sustainability (of the coop model) is relative to what the rewards are for selling it for short term gain”, Eddie Glass<sup>34</sup>.*

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<sup>34</sup> Eddie Glass ,former president of the New Zealand Federated Farmers and Nuffield Scholar

## 6 .Information transfer



In this section, we look at the various types of communication methods used between farmer coop members and their boards.

### 6.1 Coop websites and Newsletters

It was found that there is huge variation in quality, information and uptake. However in the more successful coops eg Friesland Campina, the better and more interactive their website <http://www.frieslandcampina.com/english/>.

Coop newsletters:

- Fonterra publishes their monthly “Milklink”. It covers market/seasonal conditions, Market link quarterly, bullet point notice from the chairman, and any other coop notices.  
**It also publishes all contact nos./email addresses for Board members, Shareholder members, Advisors and Technical reps.**
- Friesland Campina publish a magazine every 2 months with family friendly focus, Member-site now becoming interactive so farmers can compare with each other, 80% use site regularly

### 6.2 Chairmans’s update

In Fonterra, the chairman writes 7 to 10 day updates on issues in the coop. This takes the form of a bullet point email to each supplier. In New Zealand, there is universal acknowledgement of the merits of these communications.

The same practice was evident in many of the other coops interviewed and is highly regarded

### 6.3 Coop meetings

In the coops surveyed, different ideas emerged. For example, Arla Coop, hold financial meetings in spring and, sustainability/cooperative issues are covered in autumn. They stick to one topic e.g. how is milk price set, and there is a specialist there to explain. They also intend to increase “shed/kitchen” type meetings , for smaller groups of farmers to meet board members.

Fonterra hold shareholder meetings every 3-4 months, with directors in attendance. The format is: Chairman comes to the meeting, puts up a whiteboard. He then says to the members present that he has a number of things on his agenda to get through, but that this is the farmers’ meeting, asks for what they want to talk about. People then call out what they want to talk about and the meeting starts like that. Everyone feels more connected with that approach.

## 6.4 Education

On education and on-farm advice, we are at an advantage in Ireland. Joint advisory/coop discussion group systems were not found in the countries visited. The current Teagasc/coop facilitated groups give us as farmers and our coops a great basis for coop understanding but must be built upon.

- Friesland Campina has people employed to engage with members to make sure information gets to them and especially future board members.
- Friesland Campina, also have a young farmers programme. It has 4,000 members. Dutch farmers are encouraged and educated from an early age to get involved and understand how their coop works.
- USA coop training uses the “Young Couple program”,

This is a weekend retreat program which has proven to be very successful. The coop comes in to speak about the business, how it is going, value systems, and how it works.

*“Talk to the farmers not at them”<sup>35</sup>*

## 6.5 Milk Pricing

We must as an industry move fully to an A+B-C model. The “€ per KG of Milk Solids” is the standard of all our top performing peers. We need to completely break the link with volume either litres or gallons! Our business is transforming fat and protein into high value products, not water.

€/kg of solids has to be shown **clearly** on milk statements. This is to get producers connected to what is produced on farm to what is sold to consumers.

Teagasc has a policy of showing the above and this needs to be promoted by the entire industry.

The IDB (Irish Dairy Board) price index, tracks the movement of the basket of IDB products. It was set in 2010 at a milk price of 29.1 c ex VAT,<sup>36</sup>

But in research for this report, it was found that there is widespread ignorance of what the index means.

## 6.6 Conclusion and recommendations

- Publish all contact nos./email addresses for Board members, Shareholder members, Advisors and Technical reps. in newsletters and website.
- Make websites more interactive, so farmers can compare with each other, eg in same geographical area/soil type.
- Email updates from coop Chairman.
- Milk Leagues need to be easier to understand and compare with our international peers; there are currently significant differences between coops, e.g. 15% for protein and 30% for fat<sup>37</sup>.
- Newsletters and market reports, designed in user-friendly point format.

<sup>35</sup> Barbara Kuriger, is 2012 New Zealand Dairy Woman of the Year, and Director of Dairy NZ

<sup>36</sup> Source Pat O’Keeffe, Irish Farmers Journal 15 June 2013 3 edition

<sup>37</sup> Dairy Ireland/IFJ milk league 17/07/13

- Discussion groups should only speak in kg/ms/cow as a policy, as is promoted by Teagasc.



## 7 .Representation



In this chapter, we look at how to get farmer shareholders to realise the power they have to influence their industry, and to reconnect with their coop business.

*“Board members are supposed to be visionary, set policy and goals. Then hire good management and let them manage”<sup>38</sup>*

*Governance: why coops fail is because strategy /governance fail<sup>39</sup>*

### 7.1 Representation and elections

#### **Fonterra shareholders Council:**

This is the council used in the Fonterra coop to deal with the political, social and representative needs of its members. It is totally separate from the Board, who is solely setting the future strategy for management to implement. Its function is also to constantly review Fonterra’s performance.

There are 35 Shareholders’ Councillors throughout New Zealand. Each Councillor is elected to represent a geographical ward.

#### **PERFORMANCE MONITORING**

The Council meets regularly with the Board and Management to discuss Fonterra’s performance. Each year the Council reports to all Shareholders with an assessment of Fonterra’s performance and operations for the season.

#### **REPRESENTING FARMERS**

The Council represents the views of Fonterra farmer shareholders. The Council consults frequently with farmers, and meets regularly with the Board to ensure Shareholders’ voices are heard and considered.

#### **CO-OPERATIVE LEARNING AND DEVELOPMENT**

The Council provides learning and development opportunities for Fonterra Shareholders to increase understanding of the Co-operative and its operations. It also administers training programmes for prospective Directors and Councillors.

#### **DIRECTOR ELECTIONS**

The Council conducts the Director Election process.

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<sup>38</sup> Prof .Bob Cropp, University of Wisconsin

<sup>39</sup> Sir Henry Van Der Hayden.

The Fonterra Shareholders' Council meets at least six times a year to conduct business, debate and determine policy.

In addition to the committees, both the Council and Board have representatives on the Candidate Assessment Panel and the Governance Development Committee.<sup>40</sup>

Blue Read (former deputy S.C. chair and now Board member) stated, its functions needs to be communicated better to its shareholders as there is a feeling that some people don't trust that they are doing their job, just going along with the board. This was also a sentiment expressed by Fonterra Chairman, John Wilson.

## Westland Coop NZ

This coop has 340 members. It has only one board, the board of directors.

This board consists of 10 members:

- 5 directors from the 5 wards, i.e. one from each,
- 3 directors from the entire general electoral area,
- And 2 independent directors.

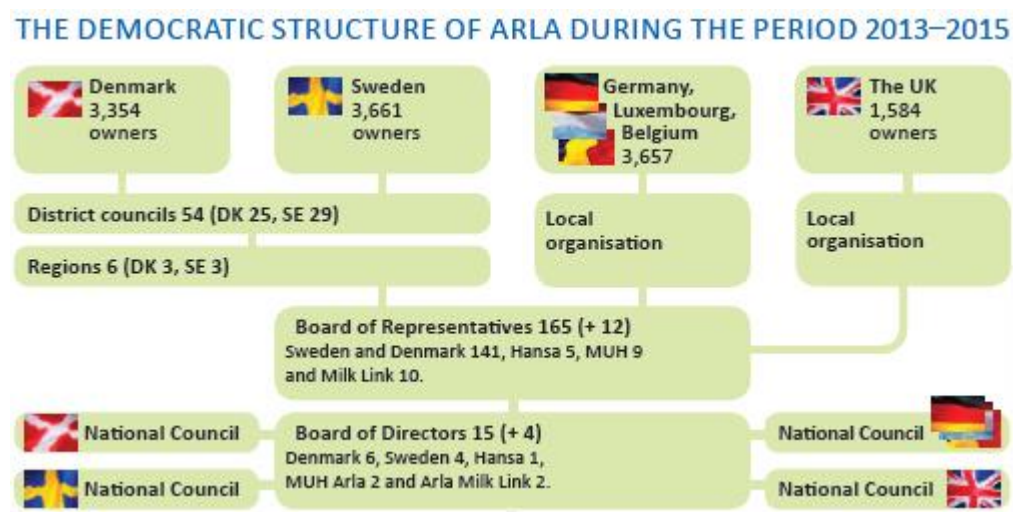
**The chairman is always an active dairy farmer.**

They operate a system where the supplier has 1 vote per 10,000 kg of milk solids up to a maximum of 10 votes. This is to give the bigger supplier more say, but the max votes is there as a safeguard to the smaller supplier.

## Arla Foods

This a unique coop structure as it covers several countries, languages and currencies.

Arla has evolved through various mergers and has now members in 6 countries, as seen in the chart below:



41

<sup>40</sup> Information on Fonterra Shareholders is taken from the Fonterra website <http://www.fonterra.com/cn/en/About/Our+Governance/Fonterra+Shareholders+Council>.

<sup>41</sup> <http://www.arla.com/About-us/Company-structure/Co-operative-democracy/>

By October 2012, Arla had approx. 12,000 member producers in Denmark, Sweden, Germany, the UK, Luxemburg and Belgium. The company takes the form of a representative democracy with one vote for each co-operative member.

In Denmark and Sweden the company is divided into geographical areas: 24 districts in Sweden and 25 in Denmark.

On Oct 1 2012 Arla merged with the German Milch-Union Hocheifel (MUH) and British Milk Link, adding 2,750 owners to the group.

It is interesting to note different voting systems in each country, based on rules and culture.

Sweden – committee system, % must be women and be able to speak German /English. This system will become common practice across the entire coop.

Denmark – they just want to pick farmers who are good at running a farm. Non farmers can be on the board.

The Board of Representatives is the company's supreme body comprising of 179 members of whom 169 are co-operative members while 10 are elected among the employees of Arla Foods in Denmark and Sweden.

The Board of Directors make up is representative of the value of the original individual coops value;

24 members

8 are co-operative members from Denmark,

7 co-operative members from Sweden,

1 from German Hansa Milch, 2 from German MUH

2 from British Milk Link.

4 members are employee representatives. In Denmark and Sweden the number of co-operative members is based on the volume of milk and the number of milk producers in the two countries.

Interesting to note the Board of Representatives decide on the distribution of the profits for the year.

## 7.2 New board members selection

### Friesland Campina

Profile of the abilities new candidate needs to have:

- visit the best candidates with group of 2/3,
- report compiled on candidate and the discussed with 10 (regional council),
- only one candidate selected to be elected, vote yes or no,
- also group of alternative farmers can put forward other candidate,
- 4yr term.

Board selection is similar, the chairmen of the 210 do a pre-selection of candidates for the board, to predetermined new criteria:

- higher degree of education,
- farmer member,
- speaks English/German,
- skills and knowledge, must know what financial questions to ask, broad view and thinking of world,

- 4 yr. term, max 12 yrs.,
- 9 on board.

### **Fonterra**

Fonterra's shareholders council has a candidate assessment program, setup by its former deputy chairman, Blue Read.

The aim of this committee was to be able to review farmers' skills. The panel of 5 includes 3 independent people. This panel assesses the candidates on their governance skills under various criteria, including commercial experience, sound track record, good judgement/values and governance experience.

The shareholders council also administers with independent election officers, the directors' elections. It also runs the Governors development program.

### **Murray Goulburn (M.G)**

They are always on the look-out for future directors, looking for young engaged farmers with a world view. The current chairman was sought after by M.G. ten years earlier because he was an accountant with an investment bank.

Full candidate profiles for elections are published in monthly newsletter.

### **Arla**

This is carried out on regional basis across 4 countries, languages and currencies. Arla is divided into approx. 10 regions: 4 in Sweden, 3 in Denmark and then Germany and the UK.

Different selection criteria are used in each country, e.g., in Sweden –committee system, % must be women, be able to speak German /English, etc. (this committee comes from Board of Rep.)

Elected on regional basis, a candidate could be elected to the board in first year.

## **7.3 New board member training and education**

- Friesland Campina: Trained internally, introduction program, training for whole group every year. External training programs organised with Nyenrode University for trainees with Board potential.
- Westland Coop: director training program, contributed to by all leading businesses on the West Coast. 15/20 people attend the 18 month course, drawn from all the sponsoring businesses. It is coordinated by the Institute of Management and leading professionals in the local companies. This course is open to anyone interested, not just for board members.

New members to the board, attend a 5 day course given by the NZ Institute of Directors.

- MG: all new board members have to compulsorily undergo the Australian Institute of Company Directors training course. One week duration.
- USA Centre for Coops, offer Director Training course: 9 days of training, comprising 2 day sessions. These cover financial statements and appraisal of managers, etc.

Every director is expected to attend a course each year,

Most Board of Directors have annual retreats to set/think-out long term strategies/long range plan, and to review past performance to that plan/manual. These plans are in a manual that all BOD members take to and make reference to at all board meetings.

## **7.4 Conclusion and recommendations**

It was found that generally there is no compulsory training of board members at all levels. However, in each business looked at there was an expectation that the new board member would attend third

party training. In-house training was normal and in some of the companies, a mentor program was in place for new board entrants.

We should have compulsory training of new regional and board members, with outside/third party training essential.

Regular training/networking with peers from other similar and different industries should be encouraged.

Selection committees for future coop candidates.

Advertise in coop newsletters the qualities needed for election.

Current board /committee members to actively canvas the best people to seek election.

## 8 .Culture



Different cultures have been observed in each coop investigated. From the Friesland Campina idea of buy out and take over of competitors, to the Arla example of mergers with like-minded coops.

One, being to use their primary owners' capital to buy up the competition. The other, to use this to develop synergies with their future partners.

In Finland, the Valio coop of coops is very similar to the Carbery coop model in Ireland. It handles 70% of the milk pool. It has 8 supplying coop members, but is actually owned by 18.

Another idea, being developed by USA milk coop, Land O Lakes is the development of local milk pools, which they are doing through a coop structure in Africa.



Photos taken in the reception of Friesland Campina, HQ, Amerfoort, the Netherlands

In an interview for this report, Piet Boer, chairman of Friesland Campina, spoke about their recognition and decision to change from referring to their farmer suppliers from shareholders to members. This also led to the buy-back of the coop shares and the reissue of member bonds. The

importance of this was to re-establish the ethos of what a coop stands for, i.e. to give its members the highest product price as opposed to highest return on capital.

Points to note from this conversation:

- If a farmer is not perceived to be good at his job, he will not be deemed good enough to be elected.
- Farmers visit the factories, once every 2 years. They are shown what products are made and where they go. About 30 to 40 % attend these events.
- F.C. bring their customers to visit the farmers, sometimes via video link. (similar with Arla in Denmark, workers also visit farms)
- Supplier farms are referred to as member farms,
- Traceability on milk cartons, code on carton can be traced through internet to truck load and to 4 or 5 farms, also story on cartons about the farmers.

(It was also interesting to note Mr Boer had milked his own cows before our interview.)

## 8.1 Culture of measured achievement

### Westland

This was first coop investigated, where a process of evaluation of the board was found.

It is in an online format, facilitated by the Institute of Directors.

Each BOD (Board of Directors) member assesses each other member on various criteria and ranks them accordingly. This is carried out every two years. The results are only viewed by each individual director and the chairman, on their individual performance.

Secondly there is a whole of board review and how they deal with issues that arise.

And thirdly, there is a review of the chairman's performance.

The CEO also contributes to the assessment of the chairman and whole of board review.

Results of 2 and 3 are then discussed in an open forum meeting.

### Murray Goulburn

Phil Tracey, chairman, spoke about their just completed board and senior management review.

This was carried out by external consultants, to get an opinion on what everyone's strengths and weaknesses were, from every board member and senior management on all board and senior management. Results are discussed in an open forum and how these can be improved. They have to be best of the best because of the Fonterra threat. Their shareholders are buying into this concept to be the best, and accept nothing less.

Also the chairman wants members to believe investing in coop is best, as they receive a 12% dividend!

## 8.2 Conclusion and recommendations

Big or small?

It was interesting to look at the different appreciations of members in the various countries. We see in Ireland the dis-connect between members and coops and this is not too different elsewhere.

In New Zealand, the majority of shareholders now appreciate Fonterra, (Sir Henry Van der Hayden). While this is true, the author spoke to one farmer, who was resigned to the fact that he effectively has

no other choice of milk processor. His main issue was that now it is so big, he did not know the people standing for election to the board. Soren Kristensen, a Danish dairy farmer interviewed for this report, also expressed the same view of Arla.

The big challenge for the necessary growth of coops is to maintain the link with their members and for all to focus on why they are members of that coop.



## 9 Why coops come together



*“Positive mindset and positive people to make mergers happen”  
B.Kuriger*

*“You don’t compete in your own backyard,” Blue Read on reason for setting up Fonterra*

Around the world the dairy business, like any other is always consolidating and becoming more efficient. Most of the mergers looked at arose from previous close working relationships.

In the case of Friesland Foods and Campina coming together, there were strong chairmen on both sides that had clear focus to steer their members. LTO (the Dutch farm organisation) was outspoken for them to come together, as there was a pricing war going on between them. Members of both coops wanted and asked for merger.

F.C. chairman, Piet Boer stated for this report “the reason to come together is the total profit would be higher than sum of the 2 parts. They did this by guarantee; they would pay 2c/l over the combined value, €175 million, within a 3 year period. This would mainly come from savings on cost”.

They wanted to get the value of both sets of members to equal so higher value (Friesland foods) coop paid out to its members, 6c/kg of milk delivered.

In the case of Fonterra, this was a culmination of years of evolution and the McKenzie Report<sup>42</sup>. This identified NZ\$30 million cash-flow savings. But the merger yielded a further NZ\$300 million savings in capital synergies<sup>43</sup>. Former Fonterra Chairman, Sir Henry Van Der Hayden, stated all processes took a 5 year period to work though. This was getting the boards’ idea’s developed and then informing /convincing shareholders of the merits.

- Fonterra’s 4 main points for successful were and are:
  - Strategy, business strategy not representative strategy
  - Capital structure
  - Milk price
  - Profit

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<sup>42</sup> The MacKenzie Report was referred to in my interview with former Fonterra Shareholders Council Chairman, Blue Read.

<sup>43</sup> Blue Read

*“It is successful because the coop is growing and farmers are becoming wealthier.”<sup>44</sup>*

## 9.1 Current Joint ventures<sup>45</sup>

In the US, at Clovis, New Mexico, the Joint Venture between Glanbia and 3 coops, SouthWest Cheese was investigated. This has become a very successful project, producing 10% of all American Style cheese. It is a 50/50 company between the Plc and Coop, Glanbia PLC processes and markets while the coops are responsible for procurement.

Other examples of joint Ventures are:

- Fonterra and DFA joined forces in 2000 to form DairiConcepts to develop, manufacture and distribute innovative cheese and dairy ingredients.
- Friesland Campina and Fonterra combined their lactose businesses in 2006 to form DFE Pharma
- Fonterra jv with First milk ,UK ,in a whey business.
- Arla jv with DMK, 50:50 powder plant.
- Arla jv with Fonterra, for the Anchor brand in UK.
- Fonterra are partnered with Nestle in South America, but Nestle is also their biggest customer and competitor also!

## 9.2 Different merger strategies

Many different strategies were looked at. In the Friesland Campina merger, the stronger/wealthier coop paid out to its members to equalise joint investment of the new merged coop members

In the Fonterra case, they would see any new members joining them to pay the Fair Value share price, e.g. former Bonlac suppliers in Australia, now contracted supplier's to Fonterra.

Arla gave representative board seats to the value of the new coop joining them.

## 9.3 Currently in Ireland

There is presently over 40 joint venture arrangements. These vary from co-processing at peak milk months, producing each other's branded products, and co-collection of milk.<sup>46</sup> There is also joint research in food technology at Teagasc, Moorepark.

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<sup>44</sup> Sir Henry Van Der Hayden, former Fonterra Chairman.

<sup>45</sup> Sources Fonterra, Arla.

<sup>46</sup> Figures from ICOS 2010 survey.

## 10 The future



We are seeing consolidation across the dairy sector in each region of the world. Joint ventures, partnerships and mergers are continuing, leading to cross border dairy processors and coops.

Based in New Zealand (2008), the “Global Dairy Trade” auction has fast become the barometer for world dairy prices. Former Fonterra Chairman, Sir Henry Van Der Hayden stated, “in 20 years’ time all farmers could come together, through, for example, the Global Dairy Trade<sup>47</sup>”

Already Dairy America, Arla, Murray Goulbourn, Amul (India) and Sodiaal (France) and others use the GDT.

Arla is the first major coop to now have supplier members in 4 countries. They also believe in a merger strategy rather than buy out.

Friesland Campina has just bought (2013) a stake in New Zealand’s, Chinese owned Synlait. They are targeting locally sourced milk in strategic countries.

The world is consolidating at a rate which makes the above inevitable. Are we entering a situation where farmers through coops are moving to the stage of a world Federation of Dairy Coops or a Global Coop.?

Can we imagine the day when farmers would actually be united enough to have huge influence over the world dairy price? At the current pace this is within sight.

The issues that will arise as we move on to the next stage:

- How do you equalise between hugely different shareholdings in international coops who would like to unite? E.g. Fonterra and a united Irish Dairy Industry?
- Monopoly and competition rules, there is a precedent in the US, the Capper Volstead Act<sup>48</sup>, which allowed farmer coops to form to monopoly situations.
- Future funding is biggest issue for farmer owned coops, to grow while preserving the cooperative ethos.

<sup>47</sup> GlobalDairyTrade (GDT) is an auction platform for internationally-traded commodity dairy products.

<sup>48</sup> Capper–Volstead Act (P.L. 67-146), the Co-operative Marketing Associations Act (7 U.S.C. 291, 292) was adopted by the United States Congress on February 18, 1922. It gave “associations” of persons producing agricultural products certain exemptions from antitrust laws. It is sometimes called the Magna Carta of Cooperation. Source Wikipedia.

## 11 Conclusions

We are in a good position internationally, with great natural advantage on farm and also the lowest co2 producers in Europe.

We have our well known Kerrygold brand, but need to leverage it.

The discussion group network and world-class Teagasc, Moorepark Research is the envy of our peers.

We have huge potential as farmer members, coop businesses, and contributors to the national economy.

Our return on investment is the guarantee, of collection of milk, political issues dealt with, advisory service and the guarantee of payment.

However, we have huge strides to make to compete and ally with our international peers.

## 12 Recommendations

*Farmers must stay in control of their own destiny; only they can do that is through a coop<sup>49</sup>*

### 12.1 Develop a farmer's sense of informed ownership

- Through an “Annual National Dairy Coop Open Day”,
- This would include factory tour and product education focus,
- An understanding of the international market and competitors we operate in and against, i.e. the scale and efficiencies,
- An understanding of products returns, timing of delivery and payment by customers,
- New product developments and investment needed.

### 12.2 National Strategy and Point of Difference

- Publish on all coop websites main page,
- Urgently need to establish, “What is our point of difference”,
- Long term R&D focus,
- Completely Integrated Model, all our main competitors have this,
- Members not shareholders, our focus has to be on consistent milk price, not investment return.
- Develop Kerrygold as Dairy Brand Ireland, in conjunction with the New Dairy Assurance Scheme.

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<sup>49</sup> Sir Henry Van Der Hayden

## 12.3 Representation

- Seek out and encourage the participation of the most talented farmers for future coop roles,
- All candidates to assessed by selection committee before going forward for election,
- Candidates profiles to be published on coop websites before election,
- Board member training compulsory, in-house and external,
- Publish all committee and board member contact details on website/newsletters,
- **All Board chairpersons**, always to be active dairy farmers.
- Board and committee members to hold regular local member meetings.

## 12.4 Milk Pricing

- Clear milk pricing policy. We are producing fat and protein. We are not paid for volume of water, it is only a cost, €per KG of Milk Solids has to be standard on milk statements. Need to focus our attention on milk constituent value and not cent per litre.
- **All milk leagues or comparisons to have international focus**, we are exporters!  
Current system is not clearly showing significant difference.
- Market reports to be reader friendly,
- Move away from monthly price setting. This is a constant issue taking up valuable board time. A quarterly guidance<sup>50</sup> on price would help planning at both farm and coop level, and may help to reduce price volatility.

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<sup>50</sup> This is currently proposed by Dairy Ireland.

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