

National Co-op UPDATE

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NZ TAKES CO-OPERATIVE GOLD

THE MONASH University **Sir John Monash** Gold Medal Award for Agribusiness Co-operative Directors has been awarded to **John Roadley**, inaugural chairman of New Zealand's Fonterra Co-operative Group.

Mr Roadley was one of the first in NZ to recognise the need for a pan-industry co-operative involving the industry's manufacturing and marketing arms, and providing sufficient critical mass in the globalising international market – into which 93% of NZ's milk is sold.

From this, Fonterra Co-operative Group was formed by a merger of the New Zealand Dairy Group and Kiwi Cooperative Dairies, to develop a globally competitive dairy group.

The merged group is one the world's Top 10 dairy producers and climbing fast, with A\$8 billion in sales and plans to increase revenue by 20%, to become the fifth largest global producer.

The move has also heralded in a strategic era for the Australasian dairy industry, with Fonterra's strategic holdings in Australia including 18% of National Foods, 25% of Bonlac Foods and 68% of Peters & Brownes in Western Australia.

Mr Roadley is the chairman of a co-operative owned by 14,000 NZ dairy farmers, and employing 20,000 staff in 120 countries.

Ian Reid, executive officer of the NZ Co-operatives Association, nominated Mr Roadley for the award, suggesting that his commitment to the ideals of the co-operative movement had been the hallmark of his career as a dairy leader.

"From his earlier days as a working farmer, John



John Roadley, chairman of the Fonterra Co-operative Group, accepted the Sir John Monash Award from the 2000 winner, Terry Hogan, of the Ricegrowers Co-operative.

has regarded it as self-evident that only through the adoption of the co-operative model could dairy farmers acquire the necessary market power to secure their futures and gain fair reward for their endeavours," Mr Reid said.

"A dairy company director since 1988 and a dairy company chairman since 1992, John is acknowledged as an outspoken and authoritative advocate of the co-operative movement in NZ.

"He is widely recognised for his ability to work with internal stakeholders, as well as with those outside his industry, and for skills as an advocate for co-operatives in the wider community."

The Sir John Monash award seeks to recognise leadership and vision in the agribusiness co-operative sector. ■

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Further progress on .coop negotiations

The US-based National Co-operative Business Association (NCBA), sponsor of the .coop domain name, reports progress in negotiations with the Internet Corporation for Assigned Names and Numbers (ICANN).

A final agreement on .coop is expected before the end of the year. Once reached, it will be presented to the US government.

The NCBA has also begun joint marketing efforts with the Credit Union National Association and

Affiliates (CUNA) to help US credit unions reserve domain names in readiness for the international launch of .coop.

According to **Paul Hazen**, NCBA CEO and president, CUNA has been helping credit unions to get on-line and recognise their co-operative values using projects such as the .coop domain name.

The .coop domain is only available to businesses organised as co-operatives, including credit unions.

It was one of only seven domain

names approved by the ICANN last year to help relieve over-crowding in the .com domain, where few short, memorable web addresses are still available.

"It's really important for credit unions to line up early for .coop, to make sure that what happened to many of them under .com doesn't happen under .coop," said **Pete Crear**, CUNA's executive vice president.

Mr Crear said on-line financial and member services were going

to become increasingly important.

"Emphasising that a credit union is also a co-operative will reinforce to our members that credit unions are businesses where people matter more than money," he said.

In Australia, .co-op applications are being co-ordinated by the Australian Centre of Co-operative Research and Development.

For more information, phone Garry Cronan at ACCoRD on 0408 118 629.

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IT IS TIME TO FEDERATE THE CO-OPERATIVE FEDERATIONS

HAVING read with interest the September/October issue of *National Co-op Update*, I would like to make some observations.

As I am no longer employed by the Co-operative Federation of NSW, the views expressed do not necessarily represent its views, nor those of my fellow directors on the Federation's board.

For more than a decade, the Australian Association of Co-operatives, and since 1993, the state co-operative federations, have been trying to find an acceptable means of allowing co-operatives to have members and trade across State borders.

Transfer of co-operatives' regulation to the Commonwealth, as occurred with Company Laws, has not been acceptable to several State Governments and co-operatives, although this would seem to be the simplest and most-effective solution.

To get sector reactions to proposed changes and elicit suggestions, State regulators have recognised State co-operative federations as the appropriate bodies with which to consult. This is a normal procedure in most industry sectors and the community.

To simplify these consultations, the National Working Party of Co-operative Registries meets with the Co-operative Council of Australia, whose members represent the five State federations.

State federations try to keep their members and other co-operatives informed of proposals for change verbally, at seminars

SNAPSHOT

In this letter to the editor, Don Kinnersley, argues the case for one national co-operative federation to progress Australia's co-operative movement.

and conferences, and via newsletters.

Unfortunately, not all co-operatives are members of their State federation, nor do they attend the seminars and conferences to which they are invited.

Some federations have difficulty getting nominations for their boards, where members would be fully involved in discussing proposed legislative changes.

The history of co-operatives responding to invitations to comment on legislative changes is not good.

In the early 1990s, when the NSW Government proposed introducing major

Rather than having five parochial, poorly resourced federations, co-operatives all around Australia should belong to one national federation, with the resources and encouragement necessary for it to take a proactive and highly visible role in developing Australia's mutual business sector.

legislative change, the registry circulated the changes among co-operatives and had to work hard to get one or two responses.

Individual co-operatives generally don't have the time or internal expertise to study proposals for legislative change. They leave this to their federation, and one or two interested lawyers.

Personally, I have considerable sympathy for the views expressed by **Nigel Hill**, one of the few lawyers with extensive experience in trying to find ways by which a co-operative can be national.

Transferring co-operatives' legislation to Corporations Law seems to be the simplest and most sensible way of unshackling co-operatives constrained by the present legislation. However, I recognise that not all State federations, governments or co-operatives share this view.

Personally, I think the introduction of template legislation for co-operatives is the time to seriously review the State-based structure of co-operative organisations and to pool our limited resources into a national organisation representing all Australian co-operatives.

Rather than having five parochial, poorly resourced federations, co-operatives all around Australia should belong to one national federation, with the resources and encouragement necessary for it to take a proactive and highly visible role in developing Australia's mutual business sector.

If the sector does not take a more co-ordinated, aggressive stand, Australian co-operatives will become just another interesting historical phenomenon.

This view is not widely shared by others in the sector, but I think it is the only viable way to turn around the decline in the sector's influence with governments and businesses in the wider community. ■

NEW ZEALAND NEWS

Education initiatives

For the first time, the New Zealand Co-operatives Association is part of the review of the education curriculum being conducted by the Ministry of Education.

The association has been working for several years to encourage the inclusion of studies about co-operatives and mutuals in the curriculum during the latter secondary school years, when students first learn about business types.

It is the association's belief that by the time students leave secondary school they should know about co-operatives and mutuals, and why they are different from the more common company structure.

The association is also encouraging universities to offer undergraduates the opportunity to study co-operatives and mutuals as part of their commerce (or other) degree.

To date, progress has been best at the university level, with a postgraduate paper being an option for students in the Department of Accountancy, Finance and Information Systems at the University of Canterbury in Christchurch.

At Lincoln University in Canterbury, where there is a strong agribusiness focus, the university has introduced a third-year undergraduate option paper, *Management of Co-operatives*, in its commerce degrees. This paper is conducted by the university's Applied Management and Computing Division.

New dairy shareholder council chairman

John Wilson has been appointed chairman of the Fonterra Shareholders Council. He was previously chairman of the New Zealand Dairy Group Shareholders' Council.

The council is made up of 46 dairy farmer representatives elected from throughout New Zealand. They will meet to consider issues raised through supplier representatives. The council is the formal interface between Fonterra shareholders and the directors who are charged with the overall running of the dairy co-operative on behalf of shareholders.

CONTACT: *Ian Reid, Executive Director, New Zealand Co-operatives Association Inc., Phone +64 4 472 4595, fax +64 4 472 4568 or Internet www.nzco-ops.org.nz*

RESTRUCTURE TO MEET YOUR FUTURE DEVELOPMENT NEEDS

THE ROLE of co-operative structure in developing a co-operative was the focus of the keynote address by **Dr Onno-Frank van Bekkum**, senior researcher at the Netherlands Institute for Co-operative Entrepreneurship at Universiteit Nyenrode. He noted that Australia's agricultural co-operatives represented a range of structures, but was not sure whether many had been analysed to determine whether they suited the co-operative's strategic intention.

"Judging from the co-operatives I've seen in Australia, I would say that you are starting the process that we stated in the Netherlands a few years ago – restructuring to meet your development needs," he said.

Some understanding of the logic of co-operative structures is needed in order to achieve the outcome from the restructure you desire, Dr van Bekkum said.

Market forces

In the Netherlands and Europe during the past 5-10 years, the markets affecting co-operatives have become more competitive and the need to get into value-added markets more pressing.

Australian co-operatives have been facing similar problems and, like their European counterparts, have alleviated some of the symptoms by getting bigger and generating greater economies of scale.

Capital limits

However, Dr van Bekkum said Australian co-operatives were getting to the limits of the 'get bigger or get out' strategy. They must now focus on 'value-added' and 'strategic' developments.

This has thrown up new issues and put increased emphasis on traditional co-operative problems, such as capital raising.

"The capitalisation of co-operatives in Australia is still a really a big issue," he said.

"There have been a number of co-operatives that have gone public or attempted innovative external capital raising initiatives, but I don't think they have really understood or taken advantage of the potential to raise capital internally."

He cited Bonlac Foods as a co-operative that had failed to raise sufficient capital from its members.

SNAPSHOT

It is not just enough to restructure a co-operative, it must be done with a eye towards what the business wants to achieve in future.

In response to the argument that while Bonlac farmers, for example, were struggling with low milk prices they could not spare extra funds for investment in their co-operative, Dr van Bekkum said that was a chicken and egg argument.

"Many of these members have millions invested in their own farm firms. It is ridiculous that they would not be able to invest more than \$10,000 in their co-operative over a period of two years, for example," he said.

Dr van Bekkum suggested the problem lay in structure, and creating and sustaining the correct incentives for members to invest in their co-operatives.

The key is communicating to members that part of the price they receive for their raw product is the actual market value for their product, while another part represents their investment in the co-operative and its role within the supply chain.

"It is clear that co-operatives need capital to invest in their future prosperity, especially as they move toward value-added markets – so there must be incentives for members to invest in their co-operatives," Dr van Bekkum said.

Links with members

Crucial to creating these incentives is maintaining a link between member investment, returns and patronage with their co-operative.

It is the concept of treating your members equitably, but not necessarily always equally. "Traditionally, co-operatives have been structured according to collective principles, treating members as being equal to each

Traditionally, co-operatives have been structured according to collective principles, treating members as being equal to each other. That is now no longer the case.

Growing interest in directors' seminar

The 2001 Agribusiness Co-operative Directors seminar was held at Aitken Hill, BHP's purpose-built conference centre at Yuroke in Victoria, on November 3 and 4.

Organised by Monash University, in conjunction with the Co-operative Federation of Victoria, the seminar attracted a record number of directors from a wide range of agricultural co-operatives, both locally and internationally based.

The weekend's keynote speaker was **Dr Onno-Frank van Bekkum**, senior researcher at the Netherlands Institute for Co-operative Entrepreneurship at the Universiteit Nyenrode, the Netherlands' premier business school.

Dr van Bekkum has published, researched and consulted widely on agricultural co-operatives.

His recent publications include: 'Agricultural co-operatives in the European Union: trends and issues on the eve of the 21st Century'.

His most recent publication, 'Co-operative models and farm policy reform' (Publishers Van Gorum 2001) is an in-depth and detailed exploration of the patterns in structure-strategy matches of co-operatives in Europe, Australia and New Zealand.

other. That is now no longer the case," Dr van Bekkum said.

"In terms of the investment relationship between the member and the co-operative, that means you have to give more individual incentives and have an individualised structure."

The relationship with the member is then based primarily on transactions they undertake with the co-operatives.

Put simply, if the supplier supplies more, he has to invest more. By the same token, if the supplier invests more he must receive more benefit from the co-operative.

During his address to seminar attendees, Dr van Bekkum highlighted a number of other measures that must be put in place to ensure that a co-operative's structure creates the right environment to match the strategic intent of your co-operative.

It seems the first hurdle at least has been overcome – recognising the problem.

Dr van Bekkum said co-operatives in Australia now realised some modifications to their structures were necessary to keep pace with developments in local and world markets. ■

DIRECTORS SEMINAR

Not so green as cabbage looking!

'Not so green as cabbage looking – how ricegrowers defeated the cartel', was the title of co-operative historian, **Dr Gary Lewis'**, after-dinner address at the seminar.

Dr Lewis' address was based on his book – *An Illustrated History of the Riverina Rice Industry* – commissioned by Ricegrowers Co-operative (RC) in NSW to commemorate 70 years of commercial ricegrowing.

The book traces the emergence of the now successful rice industry, and the pivotal roles co-operation and RC played in its development.

It is a case study of an effective co-operative situated naturally in its regional, industrial, commercial and regulatory contexts.

Dr Lewis noted that at the end of World War II, the young Riverina rice industry of south-eastern Australia was dominated by a cartel of city-based millers and spice merchants.

They monopolised milling and marketing, and colluded to keep prices and returns to growers at subsistence levels.

"It took a decade, but finally ricegrowers co-operated to elect a grower's statutory marketing board and agreed to build their own mill. Growers funded construction of a mill and the board allocated this a small quota," Dr Lewis said.

The cartel tried to stop the co-operative developing, but farmers continued to support it when they saw their returns were much improved.

"Within a few years, the co-operative and the marketing board, both democratically elected bodies, had wrested control of the industry from the cartel, grower returns improved dramatically and the rice industry was a showpiece of post-war agricultural co-operation," he said.

Dr Lewis said it was all too easy to forget the tough circumstances in which the rice industry was born and to assume that the courageous stand taken by its pioneers against terrible odds was irrelevant to modern, managed markets.

"In an uncertain world where the wisdom of laissez faire economics, deregulation, demutualisation and pedantic competition is coming under close scrutiny, perhaps some inspiration can be found in the blend of co-operation and sensible industry regulation which has characterised the Ricegrowers' story," Dr Lewis said.

Dr Lewis is working on the history of Australian agricultural co-operation in the 20th Century, leading to the publication of another book.

BE CAREFUL, OR MEMBERS WILL GET WHAT THEY PAY FOR

IN A spirited address to seminar delegates, **David Williams** injected a healthy degree of scepticism into the idea that co-operative members were reluctant or incapable of contributing enough capital to fund the needs of rapidly growing agricultural co-operatives.

He believes no other statement has been more used to confuse co-operative boards and their members about the real motives of restructuring.

"The fact is, whether co-operative members contribute the capital or not, they will still be required to pay for it," Mr Williams said.

His view is based on the premise that external investors in co-operatives still require a return on their capital to compensate them for the risk they take on the investment.

According to Mr Williams, that fact is not always well understood by co-operative members.

Further, he believes that when an honest choice is put to co-operative members on the methods of investment in their co-operative they will often opt to find the funds themselves.

For example, say farmers are given a realistic choice that they could accept a reduction in the price of their raw material to cover the 20% cost of capital needed to raise investment funds or contribute the funds at their own cost to debt of, for example, 10%, and pocket the difference.

Mr Williams said most farmers would contribute the capital, but not before being truly and absolutely convinced of the real need for additional capital.

The fact that many of the schemes suggested are often linked to executive and employee share arrangements and bold expansion plans only increases this level of scepticism.

Behind Mr Williams' comments was the belief that the economic realities of the need for additional capital are rarely given to co-operative members in a form which they can easily

understand in order to make an informed choice.

It is no wonder then that many members treat such schemes

SNAPSHOT

No matter how a co-operative raises its funds, members will eventually have to pay for the privilege, warns David Williams, managing director of the Challenger International Group.

with suspicion and raise debate about the motives of such arrangements, he said.

Mr Williams was not on a crusade to stamp out public listings of co-operatives, restructuring into corporate entities or external equity raisings. During the past two years, he has worked on a number of such structures with groups, such as the Pivot Fertilizer Co-operative, Bega Cheese and the Australian Wheat Board.

Rather, he was warning against the practice of moving away from the co-operative model for no good reason.

He also urged a wariness of capital restructure proposals hidden behind a shield of illogical or unsubstantiated claims by management – this would lead to a corporate vehicle with perpetual capital and less direct shareholder accountability than offered by co-operatives.

It was not surprising that new managers of co-operatives with a corporate background had a tendency to be more comfortable with a corporate structure, Mr Williams said – it was what they had grown up with.

As a result, they could naturally be expected to talk up the value of a restructure away from the co-operative model they were a little unsure of, to a corporate model they had cut their teeth on.

Put harshly, the solution may well be to change your management, rather than your capital structure.

In Mr Williams' experience, members who understand how the additional capital sought will provide them with adequate or enhanced returns will often go to extreme lengths to provide the money.

Don't forget the ultimate truth

Put harshly, the solution may well be to change your management, rather than your capital structure.

emphasised by Mr Williams: whichever way a co-operative raises its cash, members will pay for it one way or another. ■

THE ABC ON THE CEO

THE QUALITY of the managing director is at the heart of any business' success, said **Mike Wheatley**, co-leader of global agribusiness with international executive search firm, Spencer Stuart.

Yet Mr Wheatley's experience with Spencer Stuart suggests that many organisations are poorly led and managed.

Foreign territory

Co-operatives are not like other organisations, in ways that profoundly affect the way their CEOs work with the boards. However, most corporate CEOs know nothing of these issues or the co-operative world, and are perplexed by it.

"By the same token, most co-operative board members do not know any CEOs from the corporate world, and have little respect for awareness of what they do," he said.

Unlike, co-operative boards, a corporate board usually contains some ex-CEOs, who know the world of the CEO they govern.

"Co-operative board members listen much more to their shareholders than corporate directors. They react quickly and often emotionally to comments, and can get rolled by gossip. They have not usually been a CEO themselves and are generally not professional directors," he said.

It is often harder to run a co-operative than a corporate – to satisfy stakeholders, especially when market changes are profound and deregulation has largely occurred.

However, for co-operative board members, nothing was more important than finding and motivating the right managing director, Mr Wheatley said.

"A tendency I have seen in some co-operatives is to see the CEO as 'hired help', a 'commodity', 'easy to find' and 'easy to replace'," he said. "With attitudes like

SNAPSHOT

For a co-operative board, nothing is more important than finding and motivating the right managing director, if they are to get the right results.

that, a board will get what it deserves – a poor performer, who does not deliver what you need or what you want."

Selection process

In order to select the right CEO, Mr Wheatley said the board must define exactly what it wanted from the position. This requires a clear understanding of the present and future environment facing the co-operative, its culture and challenges.

"You must also define what your preferred future looks like, in a horizon that relates to the likely incumbency of a CEO – say five years," he said.

A good way to tighten up your view of what you need, is to take a position on how you would reward a CEO for successful performance after say three years.

"You should be able to describe outcomes that are 'satisfactory' as well as 'excellent'. These tests will help you decide what the members will see as real progress, and whether they are likely to be satisfied along the way," he said.

Self-analysis

Mr Wheatley said this analysis, even before beginning recruitment, could tell a co-operative things that might be worrying.

"For example, you might decide you don't understand your market outlook well enough. For many farmers, life ends at the farmgate and they fervently hope someone down the line will sell their product," he said.

Mr Wheatley said it was important to assess a board's skills before selecting a CEO.

"I often hear that a recent CEO has done things that his co-operative board did not sanction, something which hardly ever happens in corporates. How did this happen? The answer will either be a shortfall of skills on the board, or poor governance processes between the board and the management's freedom to act," he said.

Either way, without fixing up the board's skill-set or processes, it will not find (or attract) the CEO it needs.

The next stage is determining exactly what you wanted from a CEO.

"You cannot avoid defining this – if you don't know what you want, how can the CEO be expected to?," he said.

Given that co-operatives are different, and agribusiness is different, Mr Wheatley said boards must take note of what skills and style a new CEO must have to thrive in their world.

"A major difference is, of course, your membership, who are the owners. You must be clear how you want your CEO to interact with the members," he said.

"You must decide what the role of the chair and the board will be in member communication and shareholder comfort. If you are good at communicating with your owner members, if you are in touch, and the co-operative is well situated in financial and market terms, then you may agree that the CEO will have only a minor role in this area."

This is an important issue, as it is the one main difference that most CEOs would have from the one you need – he will not have a history of direct individual shareholder communication and may not be good at it.

But the job is not done once the recruitment is completed.

"Hiring someone from the outside is not easy, and both you and he have to work after the arrival to make it a success," he said. ■

AROUND AUSTRALIA

VICTORIA

Sell off to clear debt

Victoria-based co-operative company, Pivot, has sold its 50% share in the Ausfeed stock feed mill, following the announcement of a \$90 million, Australia-wide debt.

Pivot's partner in the mill, Coprice, (part of the NSW-based Ricegrowers Co-operative) bought the holding, making Ricegrowers one of Victoria's major stock feed suppliers.

In an effort to improve its balance sheet, Pivot sold its interest in a Tasmanian aquaculture plant earlier this year and has announced plans to close its Yarraville fertiliser plant.

NSW

Birthday celebration brings expansion

Hastings Co-operative may be celebrating its 85th anniversary, but the NSW dairy co-operative shows no signs of slowing down, with plans to expand its cheese and coolroom facilities.

Despite a tough 18 months after deregulation of the market milk sector, the 800 shareholder co-operative has a big future, chairman **Jack Eggert**, has told regional newspapers.

The co-operative paid a 12% dividend in the previous year, as well as giving shareholders a 1.5% rebate on all purchases at the supermarket, produce store, petrol, liquor and family store.

A REAL CO-OPERATIVE OR AN EXPENSIVE IMITATION?

FONTERRA Co-operative Group – the New Zealand dairy merger between the co-operatives New Zealand Dairy Group and Kiwi Dairies and the industry's government-sanctioned marketing arm, the New Zealand Dairy Board (NZDB) – is already a huge co-operatively based force in Australian and international dairy markets.

But will its rapid growth push it away from its co-operative origins until it becomes indistinguishable from the other multinational dairy giants, such as Switzerland's Nestlé and Italy's Parmalat Finanziaria SpA?

Fonterra's inaugural chairman, **John Roadley**, believes not.

In Australia as chairman in residence at Monash University's agricultural co-operative director's seminar in November, he said that Fonterra was a "people-centred business". Those 'people' are its 14,000 dairy farmer suppliers.

Mr Roadley told the seminar that Fonterra's rapid, corporate-type growth, which was making headlines across the world, was due to the formation of the giant co-operative, rather than in spite of it.

He said most of the international deals that have been occurring had been in the NZDB pipeline for some time. The merger of the industry to form the Fonterra Group had simply provided the scale and stability needed to put those deals into action.

Lest the co-operative be accused of paying lip service to the notion of being a co-operative, the NZ industry asked **Dr Adrie Zwanenberg** from Dutch co-operative bank, Rabobank, to review Fonterra's proposed structure and determine its 'co-operativeness'.

In commissioning the review, the NZ dairy industry was staking a claim that adherence to good co-operative principles and practice would help its members/owners to adapt to the global environment – not hinder them.

In his report, Dr Zwanenberg compared Fonterra with the theories that lie behind co-operative operation.

As Fonterra had not been trading as a business for any length of time, it was only possible to compare the group's 'intended' rather than 'actual' mode of action.

Farm focus

Dr Zwanenberg noted that the rationale for creating a dairy co-operative was at the farm level; as a result, it must be orientated towards the problems of dairy farms.

SNAPSHOT

Will Fonterra Co-operative Group's attack on the world's dairy industry be at the expense of its co-operative nature? The New Zealand industry asked an expert to review its structure and 'co-operativeness'.

"The processing firm must, therefore, serve the interests of the members' firms," he said.

Dr Zwanenberg said that dairy co-operatives must protect their members against the risk and uncertainty associated with farmgate milk production and help them to get the highest possible returns.

According to Fonterra's mission and objectives, these roles were covered, but he noted that the emphasis was on enhancing the value of members' co-operative shares, not striving for the highest milk price.

Entry conditions

Fonterra's 'conditions of entry' conform with those of a true co-operative, Dr Zwanenberg said. It is an open co-operative, with any membership restrictions based on sound commercial principles, such as minimum volumes of milk collection.

Likewise, Fonterra expects new members to contribute to its capital base in two ways:

- purchasing co-operative shares; and
- contributing 'capacity notes' in line with their seasonal supply pattern.

These notes reflect the additional investment needed in manufacturing capacity to process additional milk supply. They are a loan to the co-operative by the member.

"(Fonterra's) financing structure is true to co-operative concepts. This is characterised by its 100% member ownership, the full equity in the hands of member suppliers,

It seems the NZ dairy industry is determined to conquer the dairy markets of the world with its co-operative structure intact. This runs contrary to analysts in the mainstream business arena, who start from the premise that co-operatives are a relic and unsuited to the modern marketing environment.

including retained earnings and co-operative shares, and the fact that capacity notes are provided by members as debt," he said.

Benchmarking

On the more practical side, Dr Zwanenberg compared Fonterra's structure and intended practice with the world's four largest dairy co-operatives: Dairy Farmers of America; Arla Foods; Campina Melkunie; and Friesland Coberco Dairy Foods.

All the co-operatives reviewed had objectives in keeping with co-operative theory – all aimed to process and market members' milk and create as high a value as possible for those members.

However, what constituted 'value' was not as clear.

"None of the co-operatives talk about the highest possible milk price in their constitution," Dr Zwanenberg said.

"However, the way 'member wealth' is formulated is, in most cases, broad enough to include good milk price."

The only exception to this is Fonterra.

"Its constitution refers to members' value entirely in terms of the value of the co-operative shares and neglects to mention the objective of striving for a good milk price, both now and in the future," he said.

"It is true that a high milk price might be dangerous and that investments in the co-operative are needed. However, this does not alter the fact that a good milk price remains an important objective of a co-operative"

Conclusion

Dr Zwanenberg concluded that Fonterra Co-operative Group would be true to its name.

"(Fonterra's) intent, mission statement and key objectives are clearly to serve its members fully; (Fonterra) will give its members the final say in important decisions. It has a milk price payment system that is truly co-operative; and, in its method of co-operative financing, it takes into account the interests of existing, new and exiting members," he said.

It seems the NZ dairy industry is determined to conquer the international dairy market with its co-operative structure intact. This runs contrary to analysts in the mainstream business arena, who start from the premise that co-operatives are a relic and unsuited to the modern marketing environment. ■

CONTACT

More information about the report is available from Deborah Perkins, Rabobank's manager agribusiness consulting and research services, e-mail deborah.perkins@ch.syd.rabobank.com

'FACING UP' TO MEMBER COMMUNICATION HAS RESULTS

IT'S A truism, but one worth repeating – a well-informed co-operative member is a more loyal and committed one.

Recent research reported on in the latest issue of *Rural Co-operatives*, published by USDA Rural Business-Co-operative Service, backs this position, and reveals some interesting facts about co-operatives use of e-communication.

The survey of nearly 800 co-operative managers and members in the US was carried out by **David Trechter**, associate professor of agricultural economics at the University of Wisconsin-River Falls.

The study revealed the importance of so-called 'informal' communication channels. Face-to-face communication with co-operative employees and managers were first and second on the list of members' preferred communication channels.

The hard-word on newsletters

Despite the e-revolution, it seems a hard copy newsletter is still in demand as a source of information about issues affecting members. Members ranked receiving a hard copy of a co-operative's newsletter as their third most popular source of information about their co-operative's activities.

The survey also revealed that members preferred their co-operatives to publish a newsletter frequently, feeling that the news was fresher and more up to date.

In addition, managers with long tenure at a co-operative gave greater credibility to newsletters as a source of information.

SNAPSHOT

Co-operative members still prefer the 'personal touch' and conventional hard copy newsletters when it comes to communication, according to a recent US co-operative survey.

Press coverage

Press coverage was listed as the fourth most important source of information about a member's co-operative.

Many regional co-operatives may not be aware of the power of the media in this respect.

Cultivating a good relationship with the local and regional media can benefit

Preferred communication channels for co-operatives

1. Communication with employees
2. Communication with the manager
3. Co-operative newsletter
4. Newspaper articles
5. Annual meeting
6. Communicating with board members
7. Communications with other members
8. Member surveys
9. Focus groups
10. Electronic communications.

Source: University of Wisconsin survey of co-operative members in Minnesota and Wisconsin.

member relations if, as the survey suggested, members look to these sources for co-operative information

AGM

The annual general meeting (AGM) was the fifth most preferred source of information for members.

Mr Trechter concluded that AGMs were good for communicating with 'committed' members – those members who had served on the board or a co-operative committee – while newsletters were better for reaching the less-committed.

Electronic communication

The use of electronic communication system, such as e-mail and web sites, came in 10th, with only 15% of members rating this as important or very important.

This was not to say that e-communication was not important, but that there was a minority of people living in the e-world – at least among the farming populations of Minnesota and Wisconsin.

The survey also revealed these points about member relations and communication:

- Commitment to a co-operative increased among members who had served on a co-operative board or committee, or received co-operative training.
- Supply co-operative members tended to be more loyal than marketing co-operative members.
- The smaller the co-operative and more homogenous its members, the more loyalty.
- Co-operatives that have not gone through a merger tended to have more loyal members.
- The more a member has invested in the co-operative, the stronger their loyalty – although financial performance has some influence. ■

INTERNATIONAL NEWS

Mutuals still offer the best deal

A new report by the European insurance trade association, ACME, shows mutual insurers across Europe have a better overall financial performance than their proprietary counterparts.

Valuing Our Mutuality includes a five-year analysis of 24% of the European insurance market, comparing mutuals and proprietaries, and concludes that mutuals are more competitive, creative and customer-focused. The analysis of the financial performance of 97 companies, in both life and non-life insurance, in 11 Western European countries, shows, with hard facts, that mutuals generally outperform their stock counterparts.

Co-operative approach to the environment

Eco Family Activities, an initiative of the Japanese Consumer Co-operative Union, is encouraging families to better the environment in their daily lives. More than 2000 Japanese families are identifying waste and acting to reduce it, while keeping records of their progress which are available to their local co-operative.

The best practices of 17 Eco Families in 13 co-operatives were recently compiled in the publication, *Finding Waste in Your Life*.

CONTACT: www.co-op.or.jp

Lobbying practices come to light

Co-operatives in the New Europe – Interacting with governments and the European Union's Institutions is the ICA Europe's latest publication.

Officials from the European Commission (EC) and the European Parliament, among others, have contributed information to the booklet about: the EC Enterprise policy vis-à-vis co-operatives; encouraging the spirit of enterprise in the European Union (EU) enlargement process; and guidelines for obtaining EU funding. It also features case studies about co-operative organisations in Western Europe lobbying their governments and parliaments to recognise co-operatives as successful enterprises.

CONTACT: [Gabriella Sozanski](mailto:Gabriella.Sozanski@icaeurope.coop.org), e-mail icaeurope@coop.org

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