

The New Zealand Herald

New Zealand Herald — business — agriculture — Feb 21
2003 5:00AM

Fonterra's focus '76 years late'

By PHILIPPA STEVENSON

Arch-dairy industry critic Tony Baldwin says mega co-operative Fonterra's focus on customers has come 76 years late.

Fonterra chief executive Craig Norgate told a farmer audience in Hamilton yesterday that customers were unashamedly the company's first priority.

"Without customers there is no business and no bottom line. This is the reality that we need to drive home in Fonterra."

Norgate said the industry had traditionally been poor at linking suppliers to customers in global markets.

"Here in New Zealand, over the last decade, senior managers have almost always had to look inwards, yet great companies look constantly outwards toward customers and markets as the key source of sustainable competitive advantage."

Baldwin, a former Government policy adviser and Producer Board Reform Team leader followed Norgate on the seminar lineup at the trade show Dairy 2003.

He said Norgate's reference to customers was the only thing to distinguish his speech from those of decades of industry leaders.

Baldwin called for strong industry leaders "to tell you what they really think".

Over the years, dairy leaders had informed Cabinet ministers of views

that were never revealed to shareholders, he said.

He lamented that co-operative shareholders could not send the company their assessment of its performance by selling their shares.

"These speeches are relatively meaningless [because] you can't do anything if you are unhappy with the performance of the company."

In an address described by one listener as the most refreshing in years of talkfests, Baldwin blamed the industry's readiness to resort to political solutions for its commercial problems on its colonial origins.

The earliest dairy farmers were from low classes, opposed to capitalists and dreamed milk, or white gold, would provide a way to prosperity.

They formed co-operatives because of a shared distrust of outsiders and turned to the Government when in trouble. Governments created the industry by doling out finance, advice and opening up land.

In 1927, dairy pioneer William Goodfellow set out a commercial model that would link farmers directly to the market with his Amalgamated Dairies, but the idea was panned and the industry embarked instead on 76 years of statutory pricing and marketing bodies.

The last, and still imperfect model, was Fonterra, Baldwin said.

The path taken had cost the industry wealth, suppressed innovation, resulted in poor business and marketing skills, placed an unwise reliance on low production costs, produced highly inflexible assets, a lack of diversification, weak governance and highly political leadership.

Farmers had a fixation with control, but "farmers are not in control, the commodity customer is in control".

Farmers' faith in co-operatives was misplaced because they did not work well in highly differentiated markets, he said.

Meanwhile, Norgate prefaced a defence of last week's reduction in payout to \$3.60/kg of milksolids with the suggestion that looming war in Iraq might bring worse - a global recession.

Movements in commodity prices and exchange rates had overshadowed excellent progress at operating level, he said.

"Quite simply, on the things that we can control, we are performing."

Without an operating profit forecast to improve by more than \$300 million on last year and \$500 million of forecast hedging gains, the payout could have been below \$3, he said.

SubjectDetail: dairy (Ref: 3197034)

© The New Zealand Herald, nzherald.co.nz