

FARMNET

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Fonterra - A Co-op "76 years too late"

Greetings Readers

In February I wrote an-editorial - [Cooperatives Out of Fashion?](#) - expressing my opinion that the cooperative model is better than the corporate model for the dairy industry.

Subsequently Tony Baldwin has picked up on my editorial and I have been pleased to receive his criticism and point of view in an exchange of emails.

Tony Baldwin has kindly agreed that this exchange between us be be posted.

The points he has raised are considerations for dairy producers who have an acute perception that all is not well with their cooperatives performance. If you agree or disagree post your comment by clicking the "have your say button" below.

Mr Baldwins CV: Dairy Analyst - Leader, Producer Board Project Team, 1999 - Policy Adviser, Department of the Prime Minister and Cabinet, 1991-98

From Tony Baldwin - 02/05/03

Just stumbled across the editorial you wrote following my address to the Dairy 2003 Conference in Hamilton back in Feb. There are lots of myths around the industry's history that are quite true.

I wondered if you heard and saw my presentation. If not, I would be happy to present it to you sometime.

My view is NOT that co-operatives are out of fashion or no good. On the contrary, there are many situations where they are just right.

However, it is clear from current international experience in the co-operative world that traditional producer co-operatives are not well suited for highly differentiated product marketing where the consumer is the driving force.

Hence the search for different adaptations of co-operatives (and note that co-ops come in many different forms).

PS I don't have an MBA!

From Roy McCallum - 02/05/03

"Smart MBA boys in dark suits" was undoubtedly more poetic than an accurate personal description. For a rural fellow like me, pinstripe would have really shown the depth of my dismay.

The quality of your debate indicates you have had a good education somewhere and no I haven't seen your presentation and would certainly appreciate the opportunity to do so.

I think we agree that there is a problem with Fonterra and how it is structured and managed, but perhaps we are disagreeing on the likely outcome for producers as the game proceeds and different scenarios are imposed.

I have the Glaxo model of the 1950's firmly in mind although it was not originally a co-op. Milk powder was its product but once pressure went on for more capital and better capital return it morphed into a leading pharmaceutical company. Possibly great for shareholders, certainly for the executives, but not so good for producers whose contracts were cancelled and processing closed.

Thanks for the notes on co-ops. Perhaps all that the analysis is showing is that there is not enough value recovered from the market to cover the cost of the normal channel functions of dairy product processing, marketing and distribution. The scramble is for market power.

From Tony Baldwin - 02/05/03

The stuff I sent you on co-ops is not so much about scrambling for market share - it's about co-ops struggling to find a way of responding quickly to what customers want in terms of higher value - given the strong and long orientation of simply encouraging more production.

From Roy McCallum - 04/05/03

Thanks for the Sunkist report.

I still think the cooperative problem is more than an issue of market rather than producer orientation.

If a marketer followed the customer's wishes to an absurd end, in food the product demanded would be the very best quality for zero prices.

In my opinion the concept of market orientation is realised through a shorter production and distribution channel therefore enabling flexibility and response to the market.

However, I think you were closer to it with your piece on leadership in cooperatives published last week.

From Tony Baldwin - 04/05/03

The notion that following consumer demand would lead to a price of zero is obviously a bit silly. In theory, it could happen if costs were zero, but this is not normal - and given that business always seeks to achieve, in the long run, a margin over costs, a price of zero is not likely.

The key for a business is to find out what consumers want, what your competitors have in their pipeline and what it might be possible to produce for consumers that is better than your competitors (lower cost, better service or a better product). Co-operatives can do this.

However, in dairy the things that consumers pay real money for do not necessarily rely on more milk. A dairy marketer therefore has to be able to control the flow of milk supplied to it. This has been VERY difficult in traditional producer co-ops.

Hence the introduction of mechanisms like "Milk Supply Entitlements" in Tatua - which is like a quota - a right to supply so much milk. These MSEs are tradable among farmers.

I know it is hard - indeed, for many in the industry, it would feel like a heresy to admit it - but traditional producer co-ops have serious limitations in highly differentiated consumer-end markets. The longer Fonterra suppliers try to hide from this reality - the longer they keep lobbing silly tired old names at people like me ("a Wgn suit - NOT TO BE TRUSTED"), the longer it will take for them to adjust.

Dairy farmers in NZ have a deep suspicion that if it's not a traditional co-op, they will be ripped off. Several industry historians have described farmers' adherence to traditional co-ops as like a religious faith. Nothing wrong with a bit of faith - so long as it doesn't blind you to reality. And that's what has happened in the NZ industry.

The lack of leadership problem is a result of industry politicians being afraid to confront the blind spots in farmers' faith, even though some leaders can see them all too clearly.

I spent two months earlier this year reading all the books I could find on the history of the NZ industry. I suspect few farmers, leaders or commentators know their history. It explains a great deal of why the industry is how it is, and why it approaches problems as it does. This was the core of my presentation to the Dairy 2003 Conference.

Your willingness to 'have a go at me' in your on-line editorial, without having even seen or heard my presentation, or even trying to get in touch to ask for a copy, is a pretty good example of how closed and defensive the industry is and how it keeps perpetuating its own prejudices (something Gordon McLaughlan comments on strongly in his "Illustrated History of NZ Agriculture").

The few leaders who have tried to address your prejudices head-on have simply been discarded (more recently Graham Fraser, John Storey and Brian Allison). Graham Fraser was by far the most capable surviving board member to deal with the merger issues in 2000 - the first chairman to even have a tertiary degree, for which he almost had to apologise to the masses. He got pushed by narrow, egotistical and not very talented rivals. You finished up with John Roadley, who was (in my view) quite simply out of his depth. As a result, Fonterra failed to take many critical decisions when it should have.

Your leading directors view Fonterra as a means to an end - a transition point, not an end point. But they won't say so for fear of losing their jobs, which is not all together surprising given how widely shared your editorial views are.

I take an interest for three reasons: Fonterra is not monitored by any fully independent person or firm; its current structure is causing the sector (and therefore the NZ economy) to under-perform; and too many in the leadership are intellectually dishonest.

ENDS