

Fonterra chairman John Wilson – interview

With continuing turmoil in the dairy industry, Fonterra chairman John Wilson says critics of our largest company have got it wrong.

By Guyon Espiner In Profile

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John Wilson on his Te Awamutu farm. Photo/ Trefor Ward

What size are you? Ah, size 10. I spend the next half hour with my toes curled up tightly, trying to keep my gumboots on as I follow John Wilson around his farm in a tailored suit.

I've given him my US size in the running shoes I get from the sports store in Ponsonby, not ideal for trudging around a dairy farm in Te Awamutu.

The misfit is a fitting metaphor. I'm trying to walk a mile in his shoes. He's frustrated at having to explain Fonterra to urban New Zealand, where the business has many critics and few who truly understand it.

It was November when I first spoke to Wilson for this story. Things were different then. Yes, the dairy price had slumped, but the talk was that it would bounce back. As we ambled around his farm that spring day, we talked about the All Blacks' slow start in the Rugby World Cup. The idea was that, like the rugby team, New Zealand dairy farmers would soon be world-beaters again.



Photo/Trefor Ward

Wilson was upbeat. An arrest had just been made in the threat to poison milk formula with 1080, the issue that had consumed the company for months. He'd just returned from Atlanta and the Trans-Pacific Partnership talks. No, it wasn't a slam dunk, but \$100 million a year would eventually be wiped off tariffs for dairy farmers.

Top of mind was the Fonterra board elections. Yes, it is a bit strange. The chairman of New Zealand's largest company had to go out on the hustings to fight for another three-year term. But that's the co-op for you. A multi-billion-dollar global business with 22,000

employees and a chief executive on nearly \$5 million a year and the chairman has to hustle for farmers' votes to govern the company.

He won his job back, of course, but was it a case of being careful what you wish for? When we catch up again, I speak by telephone to a more cautious and anxious man. Fonterra has just released its interim financial result for the six months to January 2016. Sure, the profit is good: more than \$400 million. But suppliers are angry at payment delays and farmers are mostly losing money, with the farm-gate milk price tanking. The long, free-ranging answers he gave on the farm last spring are gone. Or maybe my questions are more blunt. What's your top priority now? "Getting every cent I can back into the hands of farmers," he says. "Every cent."



Tough at the top: despite the low milk price, Fonterra's six-month results show profit is up 123%, debt is being repaid and the share dividend is at a peak. Photo/Getty Images

THE "NOISE" IS MOSTLY DOMESTIC

It's not often viewed this way – at least by those of us who don't own gumboots – but New Zealand's largest and most talked about business doesn't actually do much business here.

"We sell 95% of our product globally, but 95% of the noise is domestic," Wilson says.

The "noise" is familiar by now: 15 years after it was established, Fonterra has been a failure. It trades in the low-margin ingredient business rather than at the high-margin, value-added end. It should be focusing on brands rather than being the FedEx of milk powder. It pays its managers too much. And what do they all do anyway, given Fonterra largely sells whole-milk powder in an online auction?

Wilson smiles through thin lips at the litany of sins. It's not really a smile at all. He says he enjoys the debate. He doesn't seem to. "In New Zealand, because of our very success, we

have a huge amount of focus on us, which is a good thing but it does create ..." He trails off before saying something he'll regret. "At times like this when we've got really low milk prices, it creates so much anxiety for our farmers and our farming families."



Photo/Trefor Ward

What of the specific criticisms? He says it is right that people challenge Fonterra on adding value to products. But it's doing that. All the volume growth in the past year has been in this area. "If you are truly moving to consumer and food service, which we need to do, you've got to develop markets. But you are essentially exporting water ... packaging and fresh air in containers out of New Zealand and you've got to be very good at that as well. You've got to be able to do consumer and food service at scale for a ticket to the game."

Fonterra's financial result went some way to answering the critics who claim the company doesn't add value. In fact, it more than doubled its earnings from the value-added side, Fonterra's branded products. Of course, the low milk price, while gut-wrenching for farmers, means cheaper ingredients, so it costs less to make the branded products. The value-added side of the business, which Wilson calls consumer and food service, earned the company \$240 million before tax in the six months.

But Fonterra is still largely a supplier of ingredients. That element of the business, the commodities, gave the co-op nearly \$620 million in earnings before tax in its latest result.

"All our farming systems are based on harvesting grass really efficiently. That is what gives us our competitive edge globally," Wilson says. "You cannot harvest that peak yield and process the amount of milk we have to process over the spring unless you are very good at providing ingredients to the world."



Director Ian Farrelly. Photo/Fonterra

TOUGH TIMES

Wilson is convinced that within the next six to 12 months, global supply and demand will come back into alignment and that dairy has a bright future. But what about now? Reserve Bank modelling for a sustained low-milk payout says in a worst-case scenario land prices could drop 40% and that 44% of dairy loans could be “non-performing”. Agriculture consultant and Fonterra critic Peter Fraser has estimated that unless things improve, up to 25% of dairy farmers could call it quits.

That would represent more than 2500 farmers. What is Wilson doing for them? Well, he says, bringing forward the dividend payment of 20c a share was the best he could do and they thought hard about extending the interest-free loans made available in September 2015. But bank loans still have to be repaid and farmers need cash flow.

Wilson has been schmoozing the banks and believes they will stick by farmers. And if you look at the Fonterra board, you find the company doesn't have to go far for advice on what the banks might do. Member Michael Spaans is a director of ASB Bank. Fonterra director John Waller is a former chairman of BNZ and director of National Australia Bank. Board member Malcolm Bailey is a director of Westpac and his colleague Ian Farrelly has spent 20 years in banking, including 15 years as head of ASB's rural division.



Director John Waller. Photo/Fonterra

Of course, it's not just dairy farmers feeling the squeeze. Fonterra suppliers are under pressure and angry at having to wait up to three months to be paid. Wilson will only concede that the communication has been poor on that subject. Other than that, he's not budging. In fact, Fonterra says its working capital has improved by up to \$70 million by delaying payments to suppliers.

Such penny-pinching must be hard to take for some hit by the rural downturn. The employee remuneration table in the statutory information section of Fonterra's last annual report must make particularly uncomfortable reading. Wilson was paid \$405,000 in director fees over the year. More than 4800 Fonterra staff are paid over \$100,000 – 75 of those earn between \$500,000 and \$1 million and 22 earn more than \$1 million a year. Sitting at the top of the salary tree is CEO Theo Spierings at \$4.9 million.

Can anyone be worth \$94,000 a week? Nervous laughter is Wilson's initial response – and the most telling. "These salaries are big salaries we pay. But we are talking about getting the best global executives we can and attracting them to the bottom of the world," Wilson says.

"We compete globally in a global world for our top executives. That's our reality and that is what we benchmark against."

And if the pass mark is financial results, then perhaps they can put up a case for the big salaries. Profit is up 123%, the share dividend has doubled to its highest level at 20c and the company is repaying debt at a “significant” rate. It’s a great time to be a dairy company then, but not so great if you are a share milker or a debt-laden dairy farmer.



Director Malcolm Bailey. Photo/Fonterra

THE THREE FS DOMINATE

To paint Wilson as oblivious to the plight of dairy farmers wouldn’t just be unfair – it would be wrong. Of course, he is a farmer himself through and through. Farming has been his life.

As well as the Te Awamutu property, he owns a large dairy business in Geraldine, South Canterbury. Although he sometimes sounds as if he’s swallowed a book of management clichés, Wilson didn’t come through the management route. He never did the MBA. He went to university but then, after a stint overseas, he started farming.

“When I graduated from university, Roger Douglas was telling us that dairy farming was a sunset industry. So we all put our backpacks on and went off and did other things,” he says, chuckling.

Wilson came back aged about 30 and bought his first farm with his wife, Belinda. She has brought out lunch on the farm today and spends much of my visit standing sentinel in the kitchen, occasionally interjecting to correct or confirm her husband's story.

He's relaxed now, looking over at her occasionally, remembering when they bought their first farm. "I'll never forget it. I was sitting at the kitchen table across the road." It was lunchtime, the radio was on and the rural bulletin had unwelcome news. "The milk price dropped. It was the day after I bought my first piece of land and the price crashed. And the next piece of news, two days later, was that Belinda discovered she was pregnant."



Director Michael Spaans. Photo/Fonterra

The couple have four girls now. Belinda points out their photos on the fridge before I leave. The three Fs dominate her husband's life: family, farming and Fonterra. He's articulate and animated talking about the first two. When he talks about Fonterra, you can add a fourth F: frustration.

He seems perpetually frustrated about what he believes are misunderstandings about the business, particularly from urban economic commentators. That day on the farm I ask him what he wants his legacy at Fonterra to be and he replies: "Being able to explain Fonterra to all stakeholders. If I could achieve that, then that would be good because, gee, it is a challenge."

Lunch has been whisked away now. My vegetarian skills have seen the ham expertly extracted from the sandwiches and hidden beneath a napkin. Belinda will notice, but not until I'm safely on my way back to Auckland. Wilson leads me out to the garage where I've left my dress shoes next to the oversized gumboots.

On the drive back I'm thinking about that last thing he said, about his frustration at being misunderstood. He chairs New Zealand's largest company and his great goal is just to explain the business. He did explain himself that afternoon. He told me and I nearly missed it. I thought we were talking about his morning commute from Te Awamutu to Fonterra HQ but we were actually talking about the meaning of life. "I drive off to Auckland at five o'clock in the morning and on all the farms you can see the cowshed lights coming on. That's why I do what I do."

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