

Co-op model vital to NZ

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THE COOPERATIVE business model has stood the test of time and thrives worldwide; New Zealand is an outstanding example of its enduring success.

With member ownership and sustainability at its heart, the co-operative business model goes back almost three centuries to its origins in the UK.

In NZ our first known cooperative was formed on John Mathieson's dairy farm on Otago Peninsula in 1871 and is part of what we now know as Fonterra. NZ now has at least 100 registered cooperative businesses and organisations. Together, their annual revenues exceed \$43 billion – almost 15% of our GDP. Globally there are an estimated 2.6 million co-operatives that turn over at least \$US3 trillion a year and employ 250m people.

Cooperative members are usually either suppliers or customers of their organisation although some overseas co-operatives are owned by their staff.

The business model is reasonably simple: benefits are provided to members either on the basis of volumes sup-

plied and/or the amount of business transacted with the organisation. In the case of volumes supplied, an initial (opening) price is paid for products such as milk, meat and horticultural products by the organisation at the beginning of the financial year and a final payout is made at the end of the year once annual returns are finalised. With consumer-owned co-operatives, prices for products (such as building products or fertiliser) or services (such as banking or insurance) are charged to customers and a year-end rebate/dividend is paid back to customers once annual returns are finalised.



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The Cooperative Companies Act 1996 requires that only 60% of voting rights are to be held by transacting shareholders which, therefore, provides a generous level of capital raising options. Cooperatives are able to raise funds from their members, from publicly issued debt securities such as debentures, from private debt, banks and retained earnings.

In recent years Fonterra has listed on the NZX and has differentiated between supplying shareholders (members) and external investors who are able to buy units on the NZX, the latter not being suppliers of milk and having no voting rights.

The cooperative business model is based on economic, social and environmental sustainability. Cooperatives, enduring and successful for decades and centuries, offer stable employment – at least 43,000 jobs in NZ. These jobs are critical to social and economic wellbeing.

Of Cooperative Business NZ's (CBNZ) full members, 70% have been in business at least 25 years and three are 100 years old or more, including Fonterra (by way of its preceding co-ops) at 145 years. The dairy giant is NZ's largest organisation by far, having succeeded for decades despite fluctuating market conditions, including its recent challenges from high global milk supply volumes, low commodity prices and over the past

12 months a strengthening NZD against the USD.

Fonterra's endurance, and the ability of the dairy industry to ride through market downturns, is a reflection of the strength of the cooperative business model. It would appear that light is now beginning to shine on the horizon with the rise in whole milk powder prices (a key indicator) to almost \$US300/tonne and Fonterra's latest farmgate milk price forecast for 2016-17 to \$4.75/kgMS solids, up from \$3.90 paid in 2015-16, and \$4.40 paid in 2014-15. (As a reflection of the strong variability that can eventuate year on year, a record \$8.10 was paid in 2013-14.)

Cooperative organisations, large or small, are committed to serving their members by succeeding commercially while taking due note of the key cooperative principle: concern for community (social responsibility).

One only has to look at the quality of the top three nominations for our recent CBNZ to gain an understanding of how Kiwi co-operatives give back to local communities each year: Farmers Mutual Group with its Farmstrong scheme supporting farmers working

through tough times, Foodstuffs South Island with its support for people struggling since the Canterbury earthquakes and supporting young people in education in the South Island, and Fonterra with its Milk in Schools scheme. These organisations care about their members, communities and NZers.

Co-operatives have their own members (customers, clients, suppliers, staff, etc.) now totaling a least one billion globally. Here in NZ we have three cooperative financial institutions with 350,000 members (customers) between them, ie Co-op Money NZ, The Co-operative Bank and Rabobank. That's almost 8% of all Kiwis. Members in the cooperative sector – suppliers, customers or staff – all benefit from the strength of the co-operative business model and its relative certainty.

NZ has the potential to lead the way globally in achieving all of the United Nations 17 sustainable development goals, however a key factor will be our willingness and ability to work co-operatively with each other. We need to work smarter.

• *Craig Presland is the chief executive of Co-operative Business NZ.*