The future of co-operatives

Co-operatives have been the foundation of New Zealand agribusiness since the Otago Co-operative Cheese Company was started by eight farmers in 1871. But with many co-ops reviewing their structures as they struggle to raise capital, are co-operatives still relevant? **Neal Wallace** begins our investigation.

Time for an evolution

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IT SHOULDN'T come as a surprise that expansion plans announced by co-operatives in recent months have been accompanied by reviews of capital structures.

Funding expansion or shifting from commodity to value-added products is expensive and finding the cash has been difficult for some co-ops.

Silver Fern Farms has taken on a Chinese partner while Westland Milk Products and dairy genetics group LIC have both signalled capital structure and funding reviews about how to pay for expansion.

Westland has signalled that could be through an entity outside the co-operative.

Alliance Group has also announced reforms which include $125 million of investment in technology and brands which it intends funding out of cashflow and from cost-cutting.

Some years ago Fonterra created a second category of shareholders, a $700 million Fonterra Shareholders Fund equal to about 7% of total equity, as part of its Trading Among Farmers structure.

Increasingly, food exporting companies are developing value-added business to reduce reliance on the commodity cycle, and this has traditionally been funded by debt.

Both Westland and SFF have become debt-averse and acknowledge the farm economy was not suitable for the company to call on shareholders to fund that investment.

SFF has found a partner in Shanghai Maling, which is investing $261m in the co-operative, while Westland is looking at options to fund growth that it vows would have a minimal impact on shareholders.

Both SFF chairman Rob Hewett and his Westland counterpart Matt O'Regan say exporters have to change the way they do business.

"A culture of change will become the new normal for a co-operative company to survive in the 21st century," O'Regan said.

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> **Rob Hewett**
> **Silver Fern Farms**

Co-operatives reviewing capital structure was part of that, he said, along with plans to reduce reliance on commodities.

Hewett said markets were complex and cluttered, and reaching consumers with your product story was expensive and beyond the ability of individuals.

"To do all that requires investment," Hewett said.

HARD SELL: SFF chairman says he and his board were determined an outside investor would not compromise the company's co-operative status.

Bankers required SFF to address rising debt but the company also needed to invest in plants and its Plate to Pasture added-value strategy, its key plank to remove reliance on selling commodity products.

"In red meat we need to be more consumer-focused otherwise we become price-focused and we'll never win that."

Hewett said he and his board were determined an outside investor would not compromise the company's co-operative status and while there had been criticism SFF was not a pure co-operative, he believed it still met those principles.

He defines a meat co-operative as farmers consolidating volume together to achieve a greater degree of market power and enjoying additional benefits such as access to processing space, rewards for patronage, a share of the profits and the ability to elect directors.

Co-operatives had served agriculture well and were still relevant but Hewett said they had to evolve, especially when capital was needed and shareholders could not meet those needs.

Hewett believed too many shareholders were not as actively involved in their co-operative as they should be and in the meat industry this was because of a lack of sector profitability but also excess processing capacity which gave farmers options.

He likened investing in a co-operative to retaining replacement ewe hoggets. They were both an investment in a farm's future.

SFF has 6200 ordinary shareholders who on average own 16,000 shares each.

Compared to shareholding in Fonterra, Hewett said it was not a large investment but it created a quandary for the board wanting the company's value to be reflected in an appreciating share price but having it still low enough to allow shareholders to be fully shared relative to the stock they sell.

"It is a fine line to walk. We want to make it easy for people to share up but at the same time we don't want it to be onerous."

Hewett said the future of the NZ red meat industry was exporting branded added-value product, but it was expensive and the payback time was long.

"But we're not going anywhere other people haven't gone before."

New Zealand good for investment

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NEW Zealand's strong transparent financial system makes it one of the most attractive countries in the world in which to invest.

Primary sector export success has enhanced that integrity, according to the latest Grant Thornton Global Dynamism Index (GDI).

The GDI has NZ ranked eighth out of 60 countries in the world for the overall quality of its financing market and first-equal with Singapore for the quality of its overall financial regulatory system.

NZ is also ranked first equal with Australia, Ireland, Singapore, Sweden and Switzerland for its low legal and regulatory risk.

If NZ was to grow its economy it needed foreign capital and benchmark data like the GDI to send a powerful message to the world that it was a safe place in which to invest, Grant Thornton NZ partner Russell Moore said.

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms.

"We are competing against the rest of the world so we must ensure that our financial and regulatory environment gives investors and export countries confidence in the security of their investment," Moore said.

A critical goal in the Government's Business Growth Agenda was the

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