

Evolution of Producer Organisations - International Experience

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Trends Observed Over the Last Three Decades

Driven by factors such as increased diversity of membership and member interests, complexity of business, changes in the competitive environment and challenges posed by liberalization and globalization, Coops are:

- Increasingly getting into processing and marketing products instead of simply aggregating supply to bargain for a better price.
- Shifting to boundaries defined by the business to attain scale of business.

Trends Observed Over the Last Three Decades

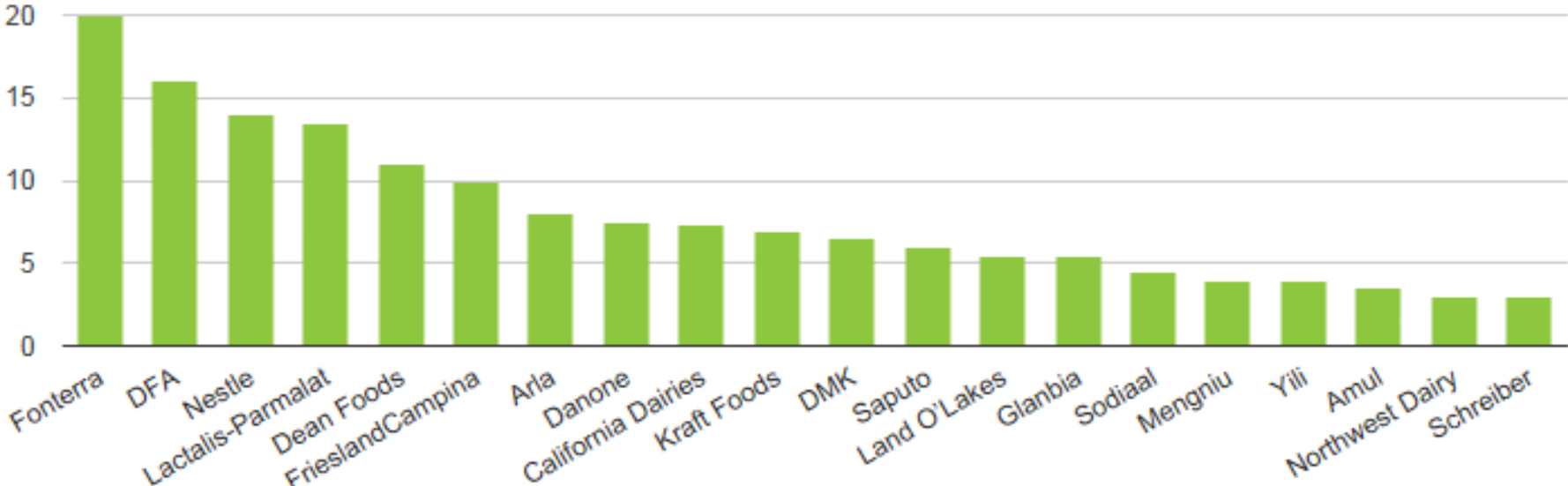
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- Undertaking horizontal growth through mergers, alliances/ joint ventures with other cooperatives /investor-owned businesses
- Professionalizing governance including through induction of outside directors with requisite expertise
- taking measures for enhancing member equity, devising ways to attract investment from members and general public
- participating in a global market whether as sellers, buyers, allies or investors particularly in those areas of the world with greater potential for expansion.

Competition is Driving Consolidation

- A flurry of mergers and acquisitions in Europe, Asia and Latin America had happened.
- Mergers and acquisitions (M&A) have reportedly reached over 120 transactions in 2013 according to Rabobank.

Top 20 global dairy companies by milk volume (billion litres)



Global dairy top 20, 2014

Rank#	Last year rank	Company	Country of headquarters	Dairy turnover, 2013 (USD billion)	Dairy turnover, 2013 (EUR billion)
1	1	Nestlé	Switzerland	28.3	21.3
2	2	Danone	France	20.2	15.2
3	3	Lactalis	France	19.4	14.6
4	4	Fonterra	New Zealand	15.3	11.5
5	5	FrieslandCampina	Netherlands	14.9	11.2
6	6	Dairy Farmers of America	USA	14.8	11.2
7	7	Arla Foods	Denmark/Sweden	12.5	9.4
8	9	Saputo	Canada	8.8	6.6
9	8	Dean Foods	USA	8.6	6.5
10	12	Yili	China	7.6	5.7
11	11	Unilever*	Netherlands/UK	7.5	5.6
12	10	Meiji	Japan	7.4	5.6
13	17	DMK	Germany	7.1	5.3
14	15	Mengniu	China	7.0	5.3
15	14	Sodiaal	France	6.6	5.0
16	18	Bongrain	France	5.9	4.4
17	16	Kraft Foods	USA	5.8	4.4
18	20	Müller*	Germany	5.0	3.8
19	19	Schreiber Foods*	USA	5.0	3.8
20	13	Morinaga Milk Industry	Japan	4.8	3.6

*Estimate

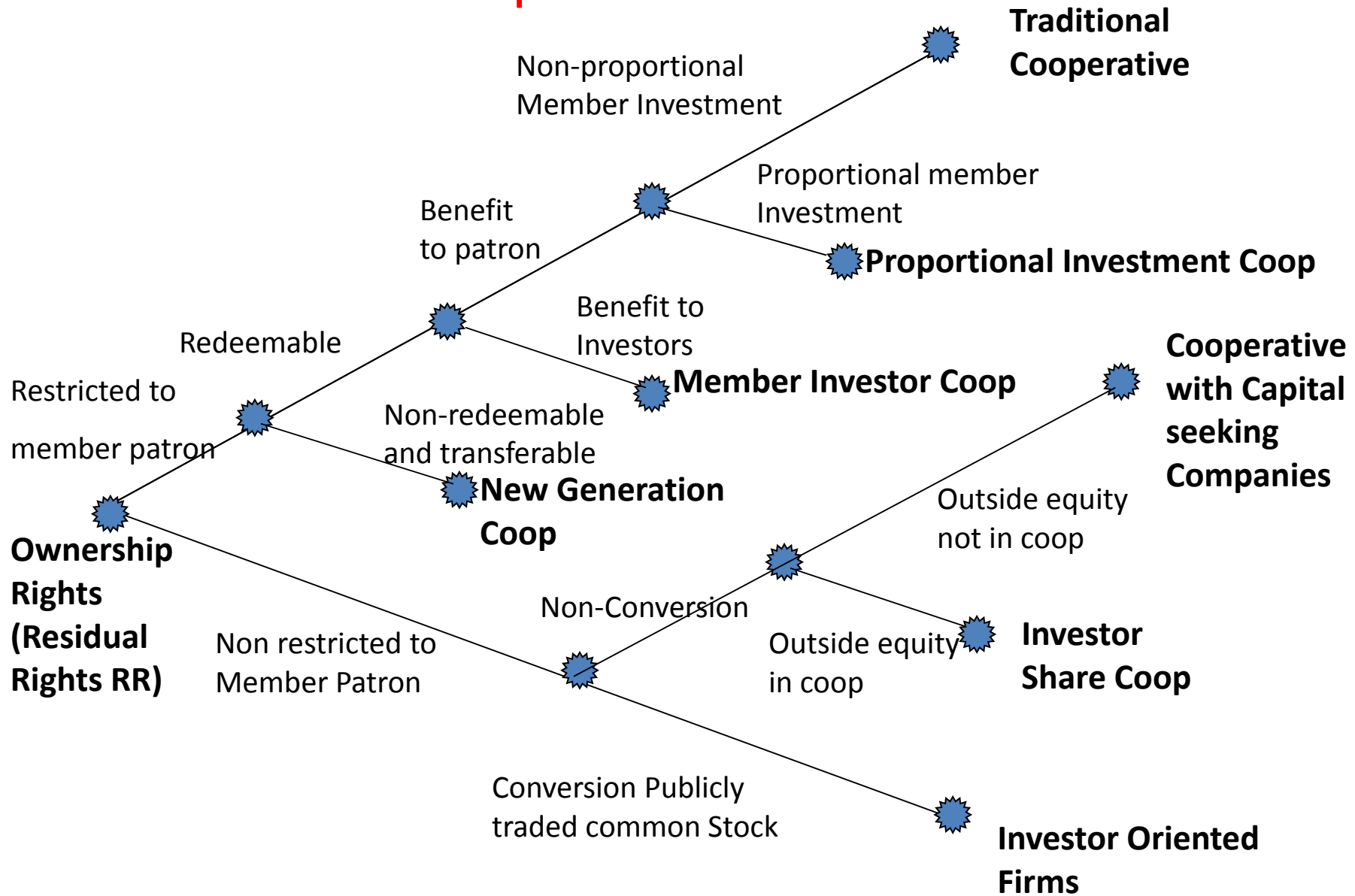
Note: Turnover data are dairy sales only, based on 2013 financials and M&A transactions completed between 1 January and 15 June 2014; the pending merger of Arla Foods and Walhorn is not included.

Source: Rabobank, 2014

Examples of Dairy Consolidation

- In USA there were more than 2000 dairy cooperatives in early 70s which have got merged and now the number is less than 150 but handling about 80% of the milk produced in the country.
- From April 1, 2014 members of Dairy Lea Cooperative Inc. approved the proposed merger with Dairy Farmers of America (DFA). DFA combines Dairy Lea's Northeast-based 1,200 members with its 13,000 nationwide dairy farmer members.
- In 2014, Belgian cooperative EGM Walhorn merged with Arla.
- In 2014 Friesland-Campina and China Huishang Dairy Holdings Company Limited signed a letter of intent for a 50-50 joint venture. The company being set up, Friesland-Huishang Dairy, will produce, market and distribute infant nutrition.

Cooperative Models



Adoption of innovative practices
success stories (LOL, DFA, Fonterra,
Dairy Australia)



- 2013 annual sales of more than \$14.2 billion, handled 12 billion pounds of milk and ranking 199 on the Fortune 500.
- Second-largest cooperative in USA with about 9,000 employees, 3,200 direct producer-members and 1,000 member-cooperatives serving more than 300,000 agricultural producers.
- Operates some of the most respected brands in agribusiness and food production including LAND O LAKES® Dairy Foods, Purina Animal Nutrition and WinField.
- Does business in all 50 states and more than 50 countries.

Governance of Land O' Lake

- Directors
 - 24 Elected Directors + 3 Outside Directors
 - Directors serve 4 years term
 - Governance is Region based upon business volume
 - Elected from a region, but govern Land O' Lake as an aggregate entity
- Sourcing Directors
 - Talent identification
 - Recruiting
 - Region councils, Nominating committee, Taking a long term view, Critical ingredients: Performance, Efficiency, Professionalism
 - Nomination
 - Applicant disclosure, Credit Background vetting, Financial and business success, Local Cooperative Success, Business support, Leadership talent and personal creativity, strong commitment
 - Elections
 - Always contested, Grade-card on participation, Efficient and member friendly, Unassailable accuracy, Integrity & third party Accountability.

LOL Patronage/Equity Programs

- **20% cash payment required by law**
- **Cash in excess of 20% approved by Board of Directors**
- **Current cash patronage/equity programs**

	<u>Ag</u>	<u>Dairy</u>
Program Name	Revolverment	Equity Target
Investment required	10-year waiting period	\$2.75/cwt
Current Earning Cash Payment	35% *	20% below \$2.75 100% @ \$2.75
Equity Returned (Revolved)	% per year based on total company performance	Over 12 yrs after member exit

* Ag cash patronage is likely increasing to 40% in 2014, subject to Board approval



Dairy Farmers of America, Inc. (DFA) owned by nearly 16,000 dairy farmer members in 48 states of USA

DFA markets members' raw milk and sells milk and derivative products (dairy products, food components, ingredients, and shelf-stable dairy products) to wholesale buyers.

DFA's net sales totaled \$12.8 billion for 2013, representing approximately 30 percent of the total milk production in the United States.

DFA Equity Building

- Member is required to have an equity of \$1.75 per 100 pounds of milk supplied annually. But this can be built over period through patronage retention.
- Till it accumulates to a level of \$1 per 100 pounds there is a deduction of 10 cents every pound of milk per month from milk payments. Thereafter it retained from annual patronage payouts to meet up to \$1.75 per 100 pounds (Cash payout is only 20% of the patronage). After equity requirement is patronage is paid fully in cash.
- No dividend is paid to members.
- Equity is returned after 12 years of member leaving active participation in the business.



Fonterra

- The Company is registered as a co-operative company under the Co-operative Companies Act

Company Overview

Total Assets Employed	NZ\$15.5 billion*
Total Equity	NZ\$6.5 billion*
Annual Revenue	NZ\$22.3 billion
Dairy Ingredients Manufactured New Zealand	2.5 million metric tonnes*
Total Ingredients Sales Volumes	2.8 million metric tonnes*
Employees	18,195*
Shareholders	10,721*

**Data correct as at 31 July 2014 Source: - Fonterra's Annual Review 2014*

Fonterra

- Farmer shareholders are required to hold the number of Shares needed to meet the Share Standard.
- The Share Standard requires that, as a minimum, one Share is held for every kilogram of milksolids supplied (excluding milk supplied on Contract Supply).
- Maximum shareholding limit - Farmer shareholders may hold up to 200% of the Shares they must hold under the Share Standard.
- The Fonterra Shareholders' Market (FSM) is a private market on which only Farmer Shareholders, and a specially appointed market maker are allowed to trade Fonterra Shares. The FSM forms part of Trading Among Farmers (TAF).
- Outside investors who are not allowed to hold shares in Fonterra but can invest in Units in a fund known as the Fonterra Shareholders' Fund (FSF). The FSF gives investors access to the Economic Rights that they would have received if they were allowed to own a Fonterra Share. The FSF Units are listed on the NZX
- Every Shareholder has one vote for every 1,000 kilograms of Milksolids obtainable from Milk supplied during the Season preceding the poll or postal ballot.

Murray Goulburn Dairy Co-op

- Murray Goulburn, an Australian dairy co-operative has listed a unit trust on the Australian Securities Exchange in order to raise capital. Set up in 1950, Murray Goulburn has grown into the largest processor of milk in Australia and the country's largest exporter of processed food.
- It aims to raise AUD \$500m via the public offering to fund capital investments. The business will keep its co-operative structure but the unit trust model will allow external investors to buy non-voting shares.

Thank You