Student 4: High Achieved
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Fonterra's business goal decisions are based on how it will benefit the company's shareholders, which are the farmers of NZ that supply milk to Fonterra. This is because if they didn't make decisions to benefit the shareholders, they may start to lose shareholders which means they lose their supply of milk. This would affect Fonterra's contracts as they may not produce enough to keep to buyers happy as they may swap to another company such as Open Country Dairy, a LLC. Over 10,500 New Zealand dairy farmers choose to be shareholders in Fonterra rather than a LLC because of its strategic goals. For example, Fonterra's latest goal, the v3 strategy, is about Fonterra trying to grow volume to higher value at velocity. It is part of Fonterra's seven strategic pathways. 1

1: optimize the NZ farmers milk meaning it's used in the best way and maximises each bit of milk ensuring nothing goes to waste.
2: build and grow beyond current consumer positions. Which means they are striving to improve on their current consumer positions enabling Fonterra to supply more milk to the world stage.
3: deliver milk on foodservice potential, meaning they want to be able to deliver milk to the same velocity of demand at the same high standard or even higher.

[For brevity the other four strategic goals cited by the student have been omitted from this exemplar.]

A limited liability company (LLC) structure can be set up with any number of shareholders, with the shareholders being the owners of the company. However, at least one director must be appointed who is responsible for the business decisions of the company, whereas compared to a co-operative structure which is also owned by the shareholders, the entities involved in the business structure choose to work together to achieve business goals which may not be as easy as overcoming them as an individual. A limited liability company also has its own bank account which the company is run through. There is a separate set of financial accounts that are prepared which includes having its own tax returns and pays its own taxes. Compared to a co-operative structure where taxes and tax returns are paid from the turn over first then the rest of the profit is evenly distributed out to the shareholders accordingly. 2

Some advantages of being a limited liability company is that more shareholders and investors have the possibility of becoming part of the company. This is both an advantage and disadvantage because if Fonterra was an LLC they would be able to have more investors with big money invest in Fonterra and because dairy farmers may not be as wealthy as them, they may lose their shares. However, this enables Fonterra to decide if they want to pick up a certain farming area's milk because if they are not a shareholder, meaning they don't partly own Fonterra, they can decide not to pick up their milk. For example, in places like the Coromandel where it is a long way away from a dairy factory, the dairy farmers are more likely to use Fonterra because with it being a co-operative they must buy shares and by doing that it means they are obligated to pick up their milk, and even though collecting their milk is less cost efficient compared to a more local area such as Cambridge, they will still get the same price for their milk as a local farmer would. 3

If a co-operative decides to start up or swap to a LLC structure, they will be faced with the setup costs which also including the extra legal and accounting costs. These are all necessary requirements to properly create a successful company using the limited liability structure and foster the best start to the new company. In a LLC individual tax rates that exceed $70,000 are 33%, meaning if the company's profit is over $70,000 per individual then the amount that can be taxed in the company is 28% because that is the company's flat tax rate. This results in a 5% tax saving on incomes exceeding $60,000. 3 With this structure asset transfers are very easy to be done. If there's a shareholder death, the shares are just inherited by the chosen recipient. Shareholders can alter the number of shares without interfering or changing the company's current assets and ownership of them. However, the structure also offers the feature of being able to gift shares to others, the structure does face problems such as taxation, if a shareholding member doesn't pay their share of the taxes resulting in it backfiring on the company.

With the co-operative structure, business decisions are made by the shareholders. The shareholders get together and discuss the decisions they should make. This results in a majority rules vote, however for Fonterra to decide, it may take a while for all shareholders to 3 have a say, meaning any problems that need a fast solution, may take a while. However, this can be beneficial because if one person decides like in a LLC, they may make a rushed decision resulting in a worse problem than before.

Fonterra distributes the milk after NZ onto the world market, so a steady pay out for dairy farmers in NZ is unheard of, it is nearly impossible to predict how much farmers will get paid out for the next year or so ahead because the market is always changing, and the milk is just sold to the highest bidder. Therefore, this makes it hard for farmers to future proof and plan years in advance to stay ahead causing many farmers to drop out of the industry, which potentially decreases the supply of milk to Fonterra. With doing so this would crush Fonterra's current goals becoming a much larger and successful business due to the fact that they would not have as many suppliers or shareholders to back them up with their steps forward.

The most sensible and best decision for Fonterra is a co-operative business structure. I believe this because of how a co-operative works in decision making. They attracted their shareholders because the shareholders could have the sense of security that they will get a say in what happens with their milk after if leaves the farm and they get the best return from it. Whereas if they were a LLC, shareholders may be pushed into a contract with the company, but once signing they realise that they aren't getting the best return for their milk 4 and have no say in making them change it to maximise milk returns. Fonterra deciding to be a co-operative company means Fonterra was a strong integrated business, meaning risk was minimised, and not at the mercy of investors. This enables Fonterra to maximise viability by minimising the risk of running at a loss. Therefore, this backs up my belief that Fonterra made the best decision for their company by operating as a co-operative.