Student 2: High Merit
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Fonterra is a producer co-operative business owned by 10,500 New Zealand farmers. Fonterra is responsible for around 30% of the world's dairy exports and is New Zealand's biggest company with a revenue of $19.232 billion. Fonterra was established in 2001 when a group of New Zealand dairy co-operatives came together (New Zealand Dairy Group and Kiwi Co-operative Dairies) to form one big dairy co-operative in order to stop competing against each other in the exporting market and have one New Zealand dairy brand so all the farmers could get the best price for their milk.

Fonterra's mission vision states they want to deliver the highest quality milk-based product to
the market. The only way Fonterra will achieve this strategic goal is to make sure that
farmers are farming right so they need farmers on their side. So being a co-operative helps
achieve this goal because it is a group of like minds owning/selling/marketing a product to 1
mutually benefit them all, in comparison to a company who will be driven to achieve the
highest profit by lowering the expenses. Fonterra is not about that they are about achieving
this quality farming so that the product - milk, can reach its unlimited potential. There is a
real reliance on the famers by Fonterra otherwise Fonterra don't have a business, so the co-
operative structure is the best for both parties, as it is mutually beneficial.

A co-operative is an entity formed by group of people in order to obtain benefits that they
would not be able to achieve alone. It is democratically controlled by its farmer shareholders
and makes sure that all members can have a say in important decisions. A limited liability 1
company has profit as its main strategic goal. Its shareholders have limited liability for debts
that the company cannot afford to pay for. An example of a limited liability company in the
agriculture sector is Open Country Dairy where individual farmers sell their milk for a fixed
price to Open Country then the company makes cheese and a range of other products and
then sells the cheese or other products and keeps the profits.

A limited liability company is usually run by a board structure which is appointed by the 1
shareholders. This board makes decisions on behalf of the shareholders. Whereas a co-
operative is run by the members and they can appoint a CEO and board if required. Fonterra
could have used the limited liability company structure. This would mean they would have
had to be a corporation and the farmers would only ever get a fixed price for their milk and
once they sold their milk to Fonterra they would have no control over it, e.g. how it gets
marketed.

The limited liability company would not be as effective for Fonterra to meet its strategic
goals. The main purpose for a limited liability company is to make as much profit as possible.
This is in contradiction to a strategic goal of Fonterra: delivering the highest quality milk-
based product to the market. A limited liability company would compromise this as they
would only be focused on generating as much profit as possible even if they have to 2
compromise quality in order to get a cheaper product to the market. Another strategic goal is
the effective use of the co-operative's resources in providing farmer satisfaction. A limited
liability company would not be as collaborative with the farming community, would not
support the farmers at the grassroots level, nor would they give farmers access to

information and resources in a flexible and responsive way. Another goal is helping farmers to farm more profitably and sustainably. In general, a limited liability company would not be interested in what their producers are doing with the products that they sell. However, Fonterra as a co-operative wants to ensure the farmers are running their farms to a high standard and as sustainably as they can so that Fonterra can provide high quality milk. 2

The short-term effects of Fonterra choosing a co-operative business structure is they look after the farmers by providing extension and technical staff to help with on-farm advice. This helps the farmers supply as much quality milk as possible and contributes to the success of Fonterra as well. Another short-term benefit is all Fonterra's farmers can send their milk to Fonterra milk processing factories and Fonterra exports the milk collectively and sells it on the global market. This means the farmers are not competing for exporting profits but can get the best price for the milk they have supplied. 3

A co-operative structure allows Fonterra to meet all its strategic needs and meet all collective needs of the individual farmers. It provides a service that benefits all owners and lets them make collective decisions and get a say in decision-making. Also as a co-operative all the farmers get an even pay on their milk solids which varies depending on how much the milk sells on the global market. A big dairy co-operative is most relevant as the New Zealand farmers stop competing against each other in the exporting market and have one New Zealand dairy brand so that all the farmers get the best price for their milk.

An important strategic goal of Fonterra is supporting rural livelihoods and community development. I am not confident that the non-farmer shareholders and Board members in a limited liability company would be as committed to investing into the farming communities that are supported by Fonterra at present.

I think that the co-operative structure has been best for Fonterra so far as it has many benefits for the farmer shareholders as well as being better than a limited liability company for meeting Fonterra's strategic goals. 2

However, Fonterra cannot now be regarded as financially successful. It made a loss of $220m in the 17-18 year, and the business has indicated that there might be a loss of around $600m in the 18-19 year. There will be no dividend pay-out for shareholders. Instead there will be a focus on Fonterra paying back debt. If this loss occurred in a LLC shareholders might quit the company by selling their shares. In spite of what the farmers have gained by being shareholders in Fonterra they are likely to consider their options of staying in the co-operative or negotiating to supply their milk to other dairy companies.