Student 5: Low Achieved
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A co-operative is an association of people who have united voluntarily to meet their common economic, cultural and social needs through a jointly owned and democratically operated enterprise. In this case Fonterra, which is jointly owned by approximately 10,500 shareholders and operated by the board of directors who get voted in each session. This report will cover why being a co-operative is important for Fonterra and why it is not a different business structure. Fonterra was first established in October 2001, merging the country's two largest dairy co-operatives, New Zealand Dairy Group and Kiwi Co-operative Dairies, with the New Zealand Dairy Board. The name Fonterra comes from Latin, fons de terra, meaning "spring from the land”. 1

Fonterra is co-operative because by being a co-op the business is has more stabilized prices for products and services because the buying power of the co-op is more because there is more equity from all the shareholders/investors. This allow Fonterra to spend more on assets to increase production. Which results in more overall income which goes back to the shareholders through a higher pay out per milk solid or dividends at the end of the season.

Being a member of the co-op means that you purchase a number of shares in proportion to a percentage of milk solids you produce and can receive a certain percentage of dividends in proportion of the amount of shares you have if Fonterra receives more income than the set pay-out specify. Which is a positive of being a supplier and being a shareholder of Fonterra, which attracts people to them. The shareholders also get a say in the governance of Fonterra which is done by vote, where a board of directors and CEO a voted in to lead Fonterra, which also allows the shareholders/suppliers to have a say in how Fonterra is run. Which is an attractive concept for shareholders because they have a say in what's happening to the investments and future. And such a wide range of people allows Fonterra to have strong business goals. 2

Fonterra's strategic needs include:

- Fonterra's strategic needs Optimize New Zealand milk.
- build and grow beyond our current consumer position.
- deliver on food service potential.
- grow the active living business.
- develop leading position in paediatric and maternal nutrition.
- selectively invest in milk pools.
- align our business and organisation.

This suits a co-operative business structure because these are the specific needs and wants of those who are running and have shares/investments in Fonterra as it says in the definition of a co-operative business structure “all were formed to meet the specific objectives of members and are structured to adapt to member's changing needs.” Fonterra was set up as a co-operative because of specific reasons by a group of people coming together who had the same vision and was not set up as a different business structure such as a limited liability company. 1

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A limited liability company (LLC) is corporate structure where the members of the company are not held personally liable for the company's payments. Limited liability companies are basically a structure that combines the ideas and personalities of a corporation and a partnership. If Fonterra was a limited liability company then they would be restricted from reaching all their strategic needs. Because they will not be able to do things like aligning their business with their organisation because the people who run the organisation are different to the people who own the business so there would be differences between people instead of being aligned. 2

Fonterra being set up as a co-operative business was the best business structure that it could be setup as because Fonterra was originally a small group of people who came together with a big idea and form a company. Now, many years on Fonterra is just and even bigger group of people with an even bigger idea. Being a co-operative means that every shareholder gets a say in how things are done which is a lot different to a LLC, as the money comes back to the all people who do the hard work instead of to one person sitting in an office. Being a co-operative allows a range of ideas and concepts to be formed and a fresh outlook on things when a new board of directors are voted in. 3

These things help Fonterra to run as good as they can, but these things are there because of Fonterra being a co-operative. Being a co-operative means that Fonterra does not have to pay tax because the Tax Code lets any co-operative business pay “patronage” refunds without having to pay tax on income it distributes to shareholders. The financial exposure to Fonterra as a co-operative would be no different to a business structure such as a limited liability company because the “risk” of purchasing something would not change apart for the fact that the co-operative shareholders could be liable to any debts that need to be paid if Fonterra did come into any financial difficulty. 3

Unlike a limited liability company where the owners, shareholders or investors cannot be held liable for any of the company’s financial problems, members of a co-operative can be. 3 Because Fonterra is a co-operative, succession planning would be very good because there is a lot of people with a lot of ideas compared to other business structures where there is not as many people to gather or think of ideas. A negative of Fonterra being a co-operative is when there is an asset transfer, or an asset is being sold because there may be some confusion about where the money for this is going to go but this would be resolved relatively quickly.

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