Student 3: Low Merit
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I recommend the business structure of a co-operative for Fonterra. For Fonterra to achieve or even aim to achieve their strategic goals being a co-operative is the best option for them. (1) This is because as a co-operative they take anyone's milk and in doing so they can achieve their goal of delivering everyday nutrition. As stated in the definition of a co-operative they are owned by their shareholders and they all work together to achieve their strategic goals and to better the business, rather than just to make a profit.

A limited liability company (LLC) is a separate legal entity with the main aim of making a (4) profit. A benefit of an LLC is that the members are protected against any liabilities.. The company will pay tax on its profit, for shareholders they will have to pay income tax on their (5) dividend.

Open Country is a LLC. Open Country offers premium dairy products to New Zealand and the overseas market. As a LLC, Open Country milk suppliers will only get one pay out when the milk is supplied. People may not have the money to set up a dairy farm, finding it financially difficult to setup the proper equipment, considering it would cost over $1 million to set up.

This is where Fonterra as a co-operative provides help and guidance to their shareholders to set up their farm with the necessary equipment such as tanks, to supply the milk. Being a (2) shareholder means that both the business and shareholder have mutual benefit from Fonterra being a co-operative. Fonterra gets supplied the milk to make the necessary dairy products and the shareholders get profit and help to provide New Zealand with premium dairy products. A LLC in the long run is about the profit, compared to Fonterra where they are out to help NZ dairy products be the best quality they can be, and in the long-term help the rural communities of New Zealand.

Open Country do not help the farmers to set up their farm or to enhance their knowledge. If Fonterra was a limited liability company, they would never be able to help out farmers with setting up or helping with other aspects of farming life. If they had the business structure of a (2) limited liability company, Fonterra would mainly be out to make a profit. This is why the current structure of a co-operative works so well for Fonterra. They are able to provide premium dairy products to the domestic market and overseas, producing a good raw product that provides nutrition.

As a shareholder you pay to have shares in Fonterra. Roughly, each farmer will have $7 million worth of land to use to produce milk. They invest in livestock which roughly would be another $1 million, and they supply milk to the co-operative. They buy shares in Fonterra, one share per kg of milk solids they supply. By having shares in Fonterra the farmers have their milk picked up every day, do not have to market their milk, and they get any surplus profit depending on the number of shares held. When they supply the milk, the farmers get a base milk price.

Whereas, with Open Country you only get paid for the milk you supply at that time and they do not have to take your milk. At the moment Open Country is paying more for the milk than

Fonterra, but they only pay one standard price. Compared to Fonterra, Open Country does not help farmers with improving environmentally or improving their skills.

If Fonterra were to ever change their business structure from a co-operative to a limited 2
liability this would have several impacts on Fonterra. This means that Fonterra would be
unable to meet their strategic goals. If Fonterra were not a co-operative, they would be
unable to support Dairy NZ, which in the long-term means that many farmers could go 3
without the needed support. Fonterra being a co-operative allows any dairy farmer to
become a shareholder, even if you live in the most remote places. Being a limited liability
company would mean that Fonterra would lose all the values and visions they hold. This
would mean that they would find it hard to meet and achieve their strategic goals, which are:

- sustainable farming to care for people, animals and the land and bring value to communities
- providing nutrition and improving health and wellbeing for people around the world
- supporting rural livelihoods and community development
- trusted goodness through the delivery of world-class products

In the long-term it could mean that other co-operatives or limited liability companies could
form and be a potential threat to Fonterra, such as the new dairy business called Yashili. In
the long-term a business with the structure of a limited liability company could surpass 3
Fonterra and because they give a pay-out straight away and sometimes it may be more than
Fonterra's base milk price. This could cause many people to change from Fonterra. This
could also be a short-term impact on Fonterra as these companies could be quick in setting
up their business.

In the long-term they will be able to also achieve their goals and to continue to support New
Zealand dairy farmers. Another short-term impact is that being a co-operative means that 3
their shareholders will not have mutual benefit. If Fonterra decided to change their structure
this could result in many shareholders having to switch from Fonterra if they became a LLC,
because they may not pick up all the milk that they do presently. I personally believe that the
current structure is the best suited for Fonterra, it is still relevant to modern times and means
that they can continue to meet their goals.