National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

Exemplar for Internal Achievement Standard

Agribusiness level 2

This exemplar supports assessment against:

Achievement Standard 91867

Demonstrate understanding of a primary industry business structure that best meets the strategic needs of a business

An annotated exemplar is an extract of student evidence, with a commentary, to explain key aspects of the standard. It assists teachers to make assessment judgements at the grade boundaries.

New Zealand Qualifications Authority

To support internal assessment

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	Grade Boundary: Low Excellence
1.	For Excellence, the student needs to demonstrate comprehensive understanding of a primary industry business structure that best meets the strategic needs of a business. This involves evaluating a primary industry business structure that best meets the strategic needs of a business. The evaluation needs to include consideration of the long and short-term implications of the selected business structure. The student evaluated two business structures, a co-operative (1) and a limited liability company (2). The student has considered short-term impacts or implications if Fonterra became a LLC structure: loss of support and suppliers, possible loss of domestic consumers, sales and profit (3). The student has explained possible backlash from farmers affecting several brands, loss of research and product development, and loss of income, as longer-term impacts or implications (4). A co-operative business structure has been justified in terms of costs and benefits, and best meeting the strategic goals of Fonterra and dairy farmers (5). For a more secure Excellence, the student should also consider the size and scope of the business, demonstrating further comprehensive understanding of LLCs (6). It is important to distinguish between a public company that could have 10,500 farmer shareholders and financial accountability to the shareholders and a private company. A private company would not be an appropriate alternative structure for Fonterra.

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Student 1: Low Excellence

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Fonterra Co-operative Group Limited is a producer co-operative. It is owned by over 10,000 New Zealand dairy farmers/shareholders. Fonterra's strategic goals are: 1
*[**Strategic goals omitted from this exemplar for space reasons.]***

Apart from farmer shareholders, outside investors are able to invest in units in the Fonterra Shareholders' Fund which gives them access to economic rights (such as distributions and capital movements), similar to those of a share. They do this by buying units which are sold via the stock exchange and can be freely bought and sold in the same way as any other listed security.

Fonterra wants to optimise New Zealand milk production. As farmers cannot supply their milk to Fonterra unless they are shareholders, they are tied to the business ensuring that Fonterra has a steady supply of milk. The business has been able to attract thousands of dairy farmers because they can earn two sources of income from being shareholders. They are paid a milk price based on the volume of milk solids supplied, as well as an annual dividend (40 cents per share in the 2016/2017 year).

The business also helps the member farmers maintain high farming standards, so their farms can be environmentally and economically sustainable. This benefits the farmers and Fonterra into the future. For example, Fonterra offers on-farm advice about improving milk solids through better pasture and different feeds. Fonterra's farmers send their milk to the processing factories and Fonterra exports the milk and sells it on the global market. This means the farmers are working collectively, not competing for exporting profits, to get the best price for New Zealand milk on the international market.

The co-operative structure also reduces risk for farmers as they have support if for some reason they cannot supply the milk they have contracted to supply. For example, if a storm meant that farmers in a certain area had to halt production, the other members could step in and supply the milk that is due. This protects members and minimises the risk they would face if they were in business on their own. 1

As a co-operative Fonterra has many advantages. It has purchasing power. Because of its scale, Fonterra can negotiate favourable terms from its suppliers, of stock feed, farm equipment etc, and pass these discounts onto the farmer shareholders. Another advantage is that Fonterra has marketing power. It can purchase advertising and other marketing costs at discounted rates because of the size of the co-operative. Another advantage is that once a farmer is a shareholder in Fonterra the co-operative is obligated to collect their milk, even if the farm is remote from a Fonterra processing plant and it is not really cost-efficient for Fonterra. 1

A disadvantage for the farmers is that they all get paid the same rate for their milk. It is not possible for any of the member farmers to negotiate a price that is better than other members. Also, Fonterra's marketing is generic so individual farmers might feel they have lost control of unique branding for their farms.

A possible alternative to a producer co-operative is a limited liability company (LLC). Like a co-operative the owners of a LLC are called shareholders, and they also have limited liability. This means that each shareholder's liability for debts that the business can't pay is limited to any amount still owing on their shares. Shareholders in a limited liability company also have two ways of earning from their shares. They can receive dividends (shares of the profit) and they may be able to sell their shares for more than they paid for them (capital gain). Limited liability companies must have at least one share, one shareholder and one director. Some companies are very small, maybe with only family members, and some are very large like The Warehouse. Shareholders in a company elect a Board of Directors to make decisions on behalf of the company. LLCs can keep their financial reports private, but a co-operative has more accountability so must publish annual accounts. 2 6

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The big difference between a producer co-operative and a LLC is that a LLC will generally have profit as its main strategic goal. The company will have other goals like sustainability, but its main purpose is to sell its product for maximum profit. To be successful a company will want lots of capital so will want more shareholders. Eventually the farmers in Fonterra LLC could be outnumbered by non-farmer shareholders. Another difference is that if Fonterra became a company a shareholder could sell their shares to anyone, like family members or strangers. They would do this through a share broker. As a co-operative, shareholders could only transfer their shares to other dairy farmers and with the approval of the co-operative. This succession planning ensures that shares are only owned by farmers who will sell milk to Fonterra, giving the business long-term viability.

If Fonterra became a LLC it would not be able to meet its strategic goals as easily. For example, sustainability of dairy farms might be given low priority. Providing consultancy advice and on-farm support may be seen as too expensive, especially by a Board of Directors who are not farmers. Although a LLC might demonstrate being a good corporate citizen by making donations, for example, it is unlikely that it would support rural livelihoods and the development of farming communities to the extent that the co-operative does.

Shareholders in a company have generally invested because they hope to earn high returns for their shares, not because of a commitment or personal connection to the company. In a LLC there would be non-farmer shareholders who just want to earn dividends from a successful business, as well as the farmers who want an outlet to sell their milk to a world-known exporter. In a co-operative all the shareholders are farmers with common goals and the success and productivity of their farms is linked to the success of the co-operative. But in an LLC the intention to maximise profit would be more important than the interests of the farmer shareholders.

I do not consider that a LLC business structure would work for Fonterra. The farmers who supply Fonterra have chosen to supply to them because it is an influential co-operative that gives back to its suppliers in the form of a pay-out at the end of the season, as well as to the community. Most Kiwi farmers associated with Fonterra would not feel comfortable selling their milk to a company for a flat deal, losing the chance to access on-farm support, and losing the buying privileges their shareholding gives them. If farmers want to supply to an LLC processor, they already have the option of supplying to companies like Open Country.

A short-term impact of converting to an LLC is that Fonterra would lose many suppliers and a large amount of support from farming communities as they would no longer be able to meet the strategic goals. Additionally, trust from the non-farming community, the consumers of their brands like Anchor, Kapiti and Mainland, could diminish, leading to a reduction in sales and loss of dividends for the shareholders of the Fonterra LLC from the New Zealand market. Overseas consumers of brands such as Anmum are likely to be unaware or wouldn't care whether Fonterra is run as a co-operative or limited liability structure. However, in the mid to long-term the backlash from Kiwi member farmers could cause many brands to not even make the international market due to reduced milk powder volume because farmers are getting less support, or are supplying to LLC milk processing companies that offer a higher base price.

A co-operative structure has always been best for meeting Fonterra's strategic needs. The business has gained an international profile, has been financially successful and has paid annual pay-outs to its shareholders. However, the business is now in a loss phase. One way of ensuring long-term viability is for Fonterra to remain a co-operative but to promote and increase the number of Fonterra Shareholders' Fund units for non-farmer investors.

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	Grade Boundary: High Merit
2.	For Merit, the student needs to demonstrate in-depth understanding of a primary industry business structure that best meets the strategic needs of a business. This involves giving a thorough explanation of a primary industry business structure that best meets the strategic needs of a business. A thorough explanation needs to include a recommendation and justification of the most relevant business structure. The student has thoroughly explained two business structures, a co-operative and a limited liability company (1). The student has recommended and justified a co-operative business structure as best meeting the strategic needs of Fonterra and dairy farmers (2). The student has considered some short-term effects or implications of a co-operative for farmers: technical and expert support, improved quality and quantity of milk, farmers not having to compete with each other, and gaining the best price on the global market (3). This is evidence that approaches Excellence. To reach Excellence, the student needs to evaluate the best business structure for Fonterra in terms of costs and benefits. For example, they could discuss distribution of profit in the two structures. Additionally, explanation of the long-term effects or implications of the recommended structure is needed to demonstrate a comprehensive understanding.

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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 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. 1

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 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. 1

A limited liability company is usually run by a board structure which is appointed by the 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. 1

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 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 2 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.

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	Grade Boundary: Low Merit
3.	For Merit, the student needs to demonstrate in-depth understanding of a primary industry business structure that best meets the strategic needs of a business. This involves giving a thorough explanation of a primary industry business structure that best meets the strategic needs of a business. To be considered thorough, an explanation needs to include a recommendation and justification of the most relevant business structure. The student evaluated two business structures, a limited liability company (LLC) and a co-operative business structure. The student has recommended a co-operative business structure as best meeting the strategic needs of Fonterra and dairy farmers (1). The student has justified this recommendation by explaining the possible differences in pay-outs, financing set-up costs and equipment, milk production, quality assurance, availability of technical expertise, and strategic goals (2). The student has started to explain some short and long-term impacts or implications like potential threats or competition from other LLCs, loss of mutual benefit, and possible problems with the amount of milk that would be picked up from farmers (3). For a more secure Merit, the student could provide further explanation of the comparative characteristics of the two business structures. For example, the student should explain that, like a limited liability company, a co-operative is a legal entity separate from its shareholders, and that both structures offer shareholders limited liability for business debts (4). Additionally, a key distinction between co-operatives and companies is tax on profit obligations, it is expected that the student would accurately explain the difference as part of a thorough explanation (5).

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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. 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. 1

A limited liability company (LLC) is a separate legal entity with the main aim of making a 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 dividend. 4 5

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 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. 2

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 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. 2

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.

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	Grade Boundary: High Achieved
4.	For Achieved, the student needs to demonstrate understanding of a primary industry business structure that best meets the strategic needs of a business. This involves explaining a primary industry business structure that best meets the strategic needs of a business. The explanation needs to include comparison with another business structure and the impact of both structures on the business. The student has compared two business structures for Fonterra, a limited liability company and a co-operative business structure. The strategic goals of Fonterra as a co-operative structure have been explained as a point of difference (1). Some characteristics of a limited liability company and co-operative business structure have been explained, demonstrating some misunderstanding about the distinctions between the two structures (2). Some advantages and disadvantages or impacts of Fonterra becoming a limited liability structure have been compared with the current co-operative structure (3). The student has recommended a co-operative business structure as best meeting the strategic needs of Fonterra, and dairy farmers, and partially justified why it is the most relevant business structure (4). To reach Merit, the student needs to thoroughly explain the characteristics of the existing, and an alternative, business structure for Fonterra. For example, it is expected that dividends, limited liability and the decision-making process for both structures would be accurately explained.

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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

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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. 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. 3

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 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. 3

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 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. 4

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	Grade Boundary: Low Achieved
5.	For Achieved, the student needs to demonstrate understanding of a primary industry business structure that best meets the strategic needs of a business. This involves explaining a primary industry business structure that best meets the strategic needs of a business. The explanation needs to include comparison with another business structure and the impact of both structures on the business. The student has compared two business structures for Fonterra, a limited liability company and a co-operative business structure. The history of Fonterra and strategic needs of Fonterra as a co-operative structure have been explained as a point of difference (1). Some characteristics of a limited liability company and co-operative business structure have been briefly explained (2). Some impacts of Fonterra becoming a limited liability company structure are compared with the current co-operative structure, but with some inaccuracy (3). For a more secure Achieved, the student needs to provide further evidence of an accurate understanding of the characteristics of a limited liability company business structure. For example, the student could recognise that if Fonterra were restructured as a public company, its decisions would not be made by one person, and that governance of a public company is by an elected board of directors. Additionally, a key difference between a co-operative and a company is tax on profits. It is expected that this would be discussed as part of demonstrating understanding of both business structures.

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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. 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. 3

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	Grade Boundary: High Not Achieved
6.	For Achieved, the student needs to demonstrate understanding of a primary industry business structure that best meets the strategic needs of a business. This involves explaining a primary industry business structure that best meets the strategic needs of a business. The explanation needs to include comparison with another business structure and the impact of both structures on the business. Some characteristics of a co-operative (1) and limited liability company business structure (2) have been briefly explained. The student has explained why the co-operative structure is best for Fonterra (2). To reach Achieved, the student needs to demonstrate further accurate understanding of the key differences between a co-operative and a public company business structure, such as decision-making, governance, risks and liability.

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Student 6: High Not Achieved
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Fonterra collects milk from farmers who are part of the cooperative and processes it into various products for overseas markets. Quality assurance is developing new products like vitamin health drinks, baby food, maternal nutrition. They develop synthetic food, produce cheese and whey production. They find new markets in India, Africa and China for low cost products powdered milk with high nutritional value.

Fonterra is a co-operative in that the farmers who provide the milk own the company which includes all the plant such as stainless-steel tanks. The milk is collected from the farms by tankers which pick up milk every day and take it to processing plants, where it is turned into butter, whey, cheese and health products as well as milk and cream. 80% is exported to China, India and Europe where prices are higher. Being a co-operative meets the strategic needs of Fonterra because the farmers who provide the milk own the company and the Board who make strategic business decisions are also farmer owners. The co-operative wants to make a profit of course and return a profit share to the farmers, but profit is not the main reason the co-operative exists. The co-operative structure is best for making sure Fonterra's strategic needs can be met. 1 2

If Fonterra became a limited liability company (LLC) it could float shares on the stock market and gain more capital to build additional plant and expand Fonterra bigger than the co-operative can afford to do now. However, under this structure control of the company could pass to outsiders (non-farmers). Apart from that, there are many things about a company that are exactly the same as for a co-operative. Owners in both structures are called shareholders who get a share of profit. 1

Fonterra is worried that being compelled to accept all milk from new farms will lead to accepting massive costs.

The Dairy Industry Restructuring Act (DIRA) was passed in 2001 to deregulate Fonterra, but the industry has changed significantly with new products coming onto the market. Today with emergency processing competition it collects 82% of the NZ markets, although next month this is predicted to decline as farmers choose other dairy companies controlled by other overseas LLC boards.

Fonterra would probably prefer to deliver health food products, especially in the baby food and nutrition markets and not be limited to butter, cheese and whey as there is already an oversupply in Europe and America.

Having to accept 'open entry' which means having to accept all milk from new suppliers is critical part of the review because it limits Fonterra's farmer shareholders and the ability to maximize value for New Zealand. "It distorts investments decision and risk for competition who 'cherry pick' their suppliers.

If DIRA requires Fonterra to sell milk to its competitions it would severely affect the future structure of the industry. The environmental regulations imposed on dairy farmers would lead to huge additional cost in the fencing of waterways and central of pollution, because the Fonterra milk pricing processes and their impact on land use and land values would be controlled.

Incentives for the processing sector to invest in innovation would be limited by the DIRA which is due for review soon and it may be forced to change its structure.

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