

The Co-operative Business Model

For years there have been diverse opinions expressed on the merits of the Co-operative Business Model. Many of those opinions, one might say, are biased one way or another, or simply academic, and so all too often readily dismissed by detractors. So persuasive is the argument in favour of co-operatives, we believe, that we should revisit the topic and put the case to closer scrutiny. So with some digging we hopefully have more clarity and a compelling case in favour of the Co-operative Business Model.

A co-operative is a business created for the sole benefit of its members.

The members are also its shareholders and owners. Its shares are not traded on an open market.

Co-ops are designed around democratic principles. A key governance principle is 'one member, one vote'

Rather than maximise profits, co-operatives aim to offer members better prices and lower costs.



“the only way for farmers to have more power and extract higher prices is to own and control more of the food supply chain themselves.”

At the outset, there is the not so encouraging statistic indicating that co-operatives here in Australia do not enjoy the same esteem as their counterparts in other western countries.

The results of a recent study conducted by the Rural Industries Research and Development Corporation found that while farmer-owned co-operatives remain strong forces in Europe, NZ and the USA, they are not as favourably regarded in Australia. In attempting to reason with this measure, it would be realistic to suggest that the average Australian farmer values his independence over sharing assets, costs and profits with his contemporaries, perhaps due to concerns over privacy, even though this stance may be at his expense.

However, dwelling on this comparison is not our agenda but a reflection to help put many of our contentions in perspective.

Federal Member Barnaby Joyce, probably recognised for his no-nonsense grounded approach to rural matters once commented,

“I work on the simple principle that the further you can reach down the path to the consumer, the greater the returns - it's better for the farmer and the local community.” Joyce said.

Mr Joyce's claim is clear, working within the co-operative model does away with the 'middle men', gives the farmer more direct access to the customer and hence increased control and greater returns.

Strength

A co-operative gives group power to individual members that would otherwise be divided and played off against each other in the market place with the middle man taking the cream, and moving on without any regard for the future of individual farmers.

A take it or leave it approach to sales leads to unprofitable and unreliable business outcomes to the detriment of farmers as one plays off against each other.

The strength of a co-operative also lies in its economies of scale and applying this to have negotiation power to achieve best outcomes for members. In addition a co-operative is well positioned to offer services and vital market intelligence to its members.

Sharing Resources

A co-operative gives farmers the opportunity to share in the ownership of an enterprise, not only the physical assets but the intangible property such as brands, trade marks, business names, and processes. Members also have the right to input to decision making and the eligibility to become a Board member and so help formulate policy and direction.

Distinctive Capability

A co-operative by virtue of its critical mass has capabilities quite distinct from those of the individual. Co-operatives have the capacity to build business relationships with customers that are not short term speculative ventures but part of longer term strategic objectives.

Facilitation

Often it can be the many things that otherwise would have to be done privately at home that are provided by the co-operative.

A co-operative not only attends to operational and marketing functions but is a well-practised administrative resource for and on behalf of its members.

This facility frees up its member farmers to concentrate on what they know best, growing quality produce without the distraction of desk functions such as surveillance of market prices, invoicing, control of debtors, controlling freight and packaging costs, reconciliations etc., not to mention price negotiations and the scrutiny of market agents.

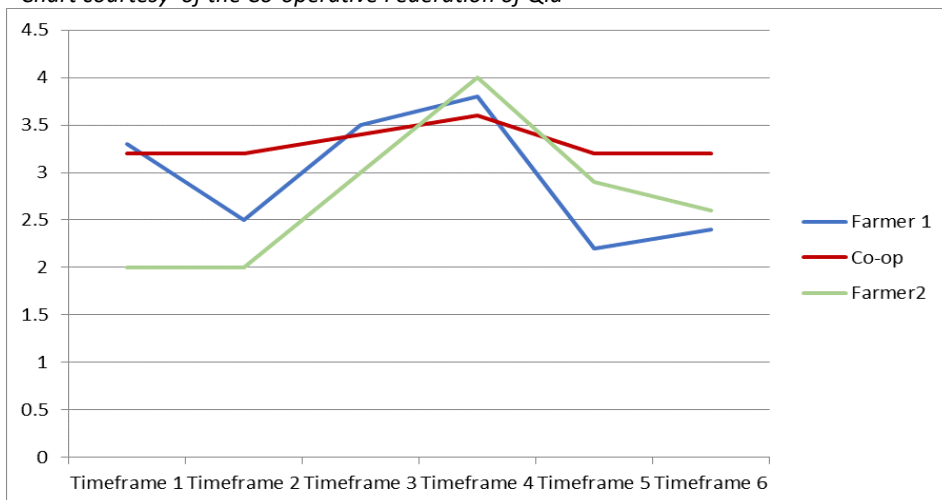
This often leads to a better quality of life for each individual member by not having to tackle those tasks that require time, focus and access to resources. They are best entrusted to staff trained in handling these tasks.

Jim Howard, previously *Executive Director, The Co-operative Federation of Qld* comments,

“It is widely known that it is relatively easy to obtain irregular spot prices in a divided industry. But, those industries that are united have a proven record of growth and reliable cash flows that can be obtained even during poor economic conditions.”

The following chart illustrates what experienced observation has been telling us. By working together in a co-operative manner, returns are reliably better than that of the divided, fragmented alternative.

Chart courtesy of the Co-operative Federation of Qld



“The co-operative score plots a flatter more stable chart line when compared with the variable unpredictable returns of the independent farmers. In addition to the income volatility of Farmers 1 and 2, their average returns are well below that of the co-operative.”

It's a recipe the thriving Sikh community in Woolgoolga, north of Coffs Harbour, has successfully put to the test, since four local farmers joined forces in 2001 to become better blueberry growers. Satpal Singh was one of them.

With 8000m² of blueberries on his farm he was in a quandary to work out how and where to package and sell them.

“The main thing was in the marketing. I'd struggle to sell my blueberries against all the other (farmers) and get a good price. By joining together we have fruit all year round and collectively that gives us much more bargaining power.” Satpal claimed.

His co-operative now supplies blueberries to the supermarkets year round and is expanding at a rate of 25-30 per cent a year.

Jim Howard continued,

“The co-operative model is more responsive to the needs of its members as control is vested with the members through the board. The success of all co-operatives is very dependent on the loyalty of its members, there being many incidental benefits that reward loyalty and provide for cohesion.”

It is fact that the business models of many co-operatives have been so successful they have sown the seeds for the creation of large corporates. Through mergers, acquisition and in due course, incorporation, a number of Australian co-operatives have evolved to become major players in their industry sector.

In 1978, the Racecourse Sugar Co-operative near Mackay led a feasibility study on the rationalisation of the district's sugar co-operatives. A later vote by shareholders opened the way for the merger of the district's five sugar mills and the purchase of CSR's Pleystowe Mill.

Mackay Sugar Co-operative was incorporated February 1988, a date of tremendous significance in the history of the Australian sugar industry. The merger created a large financially viable milling entity which has maximised grower returns from cane production and sugar manufacture.

Ricegrowers Co-operative Association was formed 1950 in Leeton NSW by like-minded growers seeking to achieve the benefits of working together. Their business model has steered their success, evolving to become one of the largest rice food companies in the world, all from humble beginnings.

‘SunRice’, the company trading name, now boasts 2,200 employees in 50 countries, servicing 30 brands within 11 businesses.

Success stories as such are testimony to the robustness of the co-op model and the long term viability of the ambitions of farmer groups who share a common interest.

Many larger co-operatives with a national profile have retained their mutual status and continue on their growth path.

Co-operative Bulk Handling is Australia's largest co-operative.



Owned by 3,900 growers it has a vast network of grain handling assets in Australia and downstream flour milling operations in Indonesia, Vietnam, Malaysia and Turkey.

Established in 1895, Norco is the essence of the durability of the co-operative model.



Owned by over 300 active dairy farmer members, Norco milk products have become household brand names earning the business \$680m in annual turnover.

Jim continued, “Agriculture is both cyclical and seasonal and is why farmers need to rely on each other to collectively give muscle, certainty and financial stability to an enterprise.

Many rely on the co-operative model to grow and prosper, trusting the philosophy, **United We Stand, Divided We Fall.**”