

Window of opportunity for 'Dairy Ireland'



ONNO VAN BEKKUM
CO-OPERATIVE STRATEGIST
& CEO, CO-OP CHAMPIONS

Ireland is a strong dairy country. In the European Dairy co-op top 20 ranking, Ireland is well represented: Glanbia Society ranks 6th (consolidating the group in full), the Dairy Board 8th, Kerry Co-op 10th and Dairygold 18th. The ranking suggests that Ireland is a strong competitor, on a par with the likes of Friesland Campina, Arla Foods, DMK and Sodiala. *Table 1* takes a closer look.

In 1998, Glanbia ranked 4th (revenue -26% since then); the IDB 9th (+5% in 12 years); Kerry Co-op 16th (+37%, including Golden Vale and Dairygold-Breoo) and Dairygold 17th (-11%). While Friesland Campina, Arla Foods and DMK merged, Ireland remained fragmented. Only Kerry Group realised significant growth, especially outside classical dairying.

The aggregate turnover of the Irish dairy co-operatives (almost €6bn, based on the

table) is strongly inflated for several reasons:

- Glanbia is only 54.5% co-op owned
- The revenues of the Irish Dairy Board are double counted in the turnover of Glanbia, Dairygold and its other shareholders
- Glanbia and Dairygold are involved in Irish non-dairy activities (that other co-ops in the ranking would not engage in) and co-owned by non-dairy farmers (leaving dry shareholders aside)
- The dairy-related share of Kerry's turnover isn't immediately clear. Corrected for these various factors, the aggregate turnover of 'Co-op Dairy Ireland' would probably amount to some €2.5bn. It would result in a 5th place ranking behind the Dutch, the Danes, the Germans and the French.

Kerry Co-op recently agreed to lower its statutory minimum ownership to 10% and its current stake from 22.8 to 17.1%. NCB Stockbrokers commented just before the first vote that 'if passed (the vote) would probably signal the beginning of the end for the co-op shareholding in Kerry Group'. That might be true; we can only speculate at this point. But, at some stage, some investor might well show interest in obtaining a signifi-

cant shareholding, which would possibly conflict with prolonged farmer influence. Time will tell.

But would farmers step in to rescue 'their' (Irish) dairy business, as Glanbia Society attempted in May 2010 and Golden Vale aspired to in October 2000? Or would they simply cash their last shares? The Kerry Co-op share in Co-op Dairy Ireland is complex.

Counting in Glanbia Society's share isn't straightforward either, as last year's vote made clear. The views on the precise structure of the new entity (and on the price to be paid) were far from unanimous. It's a very profitable business though, while not precisely the segment considered for buy-back.

The Irish Dairy Board, given its fragmented shareholder base composed of otherwise competing players, is again a complex case. Not able to control milk supplies and processing, it can't develop an integrated strategy.

Dairygold, after selling its consumer business, has lost access to some of its markets and has become dependent on the strategies of other (international) players, such as Danone.

As a solution for the entire Irish dairy sector, that may not be good enough.



View from an outside o

For a continental observer, it seems one is forced to conclude that the 'success story' of Irish dairy co-operatives gone public, has, one generation later, brought the Irish dairy sector into a very difficult situation. The dairy industry has failed to consolidate, with over 20 co-operative players and apparently a total of more than 300 board members. The two leading groups are committed to maximising shareholder value and, therefore, can't focus on dairy farmers' long-term strategic needs.

LEADERSHIP

The Dairy Board, as CEO Kevin Lane stated (*Irish Farmers Journal*, 23 July 2011), has no mandate to consolidate or restructure the industry either. Who is to show leadership?

The dairy sector in Ireland has great potential. There is a window of opportunity, but it may not remain open for much longer. The anticipated 50% upsurge in milk production post quota abolition is

unparalleled in Europe. If the dairy farmers, the dairy processing industry and their international marketing arm were to align in a single, strong, integrated model, that would be wonderful. That would require a more uniform category of owners: active dairy farmers rallying behind their co-operatives, transforming them into (one or two) true champions (and perhaps another champion to deal with the agribusiness trading segment separately).

If some of the smaller co-operatives decide to opt out and pursue niche strategies, that's perfectly fine. A new co-operative with a more defined owner category would require having a strategy. Having a strategy is definitely more than just completing the puzzle of carving out, selling off and recombining bits and pieces of an Irish-owned dairy industry. Solving the governance challenge and selecting the best combination of board members would need some expert assistance as well.

Introducing a 'members council' (e.g. Friesland Campina and Arla Foods) might allow most of the members currently active in a governance role to remain 'on board', while at the same time relieving the sector from 'public' ballots where thousands of members queue up every year or two. And it would require an intelligent share structure, given that the value of shareholdings in current co-operatives differs quite considerably.

RESPONSIBILITY

It would be great if dairy farmer owners in Kerry Co-op were to show responsibility and carve out the dairy business and brands from the group. Do they want to cash it all or build something up for the next generation of dairy farmers?

Glanbia has made excellent strides in the US and Africa. From a strategic point of view, it would be unfortunate to lose ownership of that. With or without the help of an international co-operative

GREAT GREAT VALUE

FERTILISERS & MINERALS

SECOND GRADE BULK FERTILISER

MOLASSED MINERAL BUCKETS & BAGGED MINERALS

We will Spread up to **50 miles** from Thomastown

Department of Agriculture & Food-Approval Number 01EKK236900
Where appropriate Bioplex minerals are included in our products

Pasture Sward / Cut Sward
18-6-12 / 0-10-20 / 0-7-30
and other formulations prepared to order

Hi-Mag / Pre-Calver / Calf Beef Fertility / Sheep Sweet Cal. Mag. / Cubicle Lime
Standard range plus TMR-Total Mixed Ration

DELIVERED OR COLLECTED EX-STORE

NATIONAL NUTRITION LTD

Dangan, Thomastown, Co Kilkenny

Ger Gaffney 056 77 24123

2nd grade GRANULAR UREA in big bags in good condition for sale



Table 1: European dairy co-ops top 20 (current and 1998) ranked on turnover

| Rank | Company | Country | Date | Turnover (€m) | Change one year | Change 10 years | Net profit | As % of turnover | Members | Since 1998 |
|------|-------------------|---------|--------|---------------|-----------------|-----------------|------------|------------------|---------|---|
| 1 | FrieslandCampina | NL | Dec10 | 8992 | 10% | 9% | 458 | 5.1% | 14829 | #1 Friesland €3917m; #2 Campina €3499m; merger Dec 08 |
| 2 | Arla Foods | DK | Dec10 | 6577 | 6% | 28% | 170 | 2.6% | 7178 | #3 MD Foods 3148m; #11 Arla €1520m; merger Apr00; merger Hansa Apr 11 |
| 3 | DMK | DE | Dec10 | 4175 | -6% | 1% | 2 | 0.1% | 11000 | #6 Nordmilch €2400m; #12 Humana 1380m; merger May 11 |
| 4 | Sodiaal | FR | Dec10 | 4021 | 62% | 75% | 23 | 0.6% | 13000 | #5 €2770m; 7 federated co-ops merged in 2007 |
| 5 | Tine | NO | Dec10 | 2411 | 3% | 74% | 116 | 4.8% | 14841 | #13 €1212m |
| 6 | Glanbia | IR | Dec10 | 2167 | 18% | -17% | 109 | 5.0% | 8227 | #4 €2922m; bought Dairygold liquid |
| 7 | Emmi | CH | Dec10 | 2153 | 22% | 151% | 69 | 3.2% | 3700 | #20+ €433m; bought assets bankrupt co-op Toni |
| 8 | Irish Dairy Board | IR | Dec10 | 1905 | 5% | -2% | 11 | 0.6% | | #9 €1807m |
| 9 | Valio | FI | Dec10 | 1822 | 2% | 20% | 39 | 2.1% | 9200 | #10 €1680m |
| 10 | Kerry Co-op | IR | Dec10 | 1180 | 10% | 12% | 11 | 0.9% | 3663 | #16 €866m; bought co-ops #14 Golden Vale Sep 01, Dairygold-Breeo, Newmarket |
| d11 | Hochwald | DE | Dec10 | 1148 | 9% | 84% | 1 | 0.1% | 4950 | #20+ €299m; merger Starmilch Jan 05 |
| 12 | Laita | FR | Dec10 | 1087 | 172% | 248% | | | 3475 | €265m; merger Even-Terrina-Triskalia Jun09 |
| 13 | Bayernland | DE | Dec09 | 1003 | 0% | 98% | 0 | 0.0% | | #15 €890m; merger Domspitzmilch Apr 09 |
| 14 | Granarolo | IT | Dec10 | 884 | -2% | 33% | 3 | 0.4% | 677 | #20+ €429m |
| 15 | Milcobel | BE | Dec10 | 820 | 9% | 48% | 6 | 0.8% | 3300 | #20+ €410m; merger BZU May 05 |
| 16 | Capsa | ES | Dec10 | 738 | 2% | 22% | 19 | 2.5% | 1194 | #20+ €457m |
| 17 | 3A | FR | Dec10 | 709 | 11% | -31% | | | 2450 | #18 €690m |
| 18 | Dairygold | IR | Dec10 | 694 | 25% | -28% | 17 | 2.4% | 8000 | #17 €784m |
| 19 | Milk Link | GB | Mar 11 | 666 | 8% | 57% | 13 | 2.0% | 1424 | #7 €2243m |
| 20 | Lactogal | PT | Dec09 | 657 | -17% | 7% | 23 | 3.5% | | #20 €515m |

Source: Co-op Champions Database

Note: FrieslandCampina, Arla Foods and DMK 10 year growth figures as if already merged in 2000.

* Kerry Co-op = Kerry Group turnover * ownership percentage; Net profit = share of Group dividend

* Golden Vale in 1998, while not a cooperative, was included as a farmer owned business.

* Milk Marque ranked #7 in 1998; successors Milk Link and First Milk currently rank #19 and #21

observer

investment partner (Fonterra or Arla Foods, more likely than Friesland Campina), why not keep these assets in dairy farmers' hands? They might depart from the nutritional business to help fund the buy-back.

HERITAGE

Combined with the ingredients business and co-operative heritage of Dairygold and the international marketing network of the Dairy Board, this would produce a strong, internationally oriented player.

The Dairy Board also has divestment opportunities that could be re-invested in dairying.

Or would you, instead of a co-operative solution, rather wait for a major international player to move in and do it for you?

It requires strong commitment by all parties involved and it all begins with farmers, who should resume active ownership and control over their co-operative businesses.

AUCTION

Friday 30th September at 3pm
Cookstown, Ashbourne, Co. Meath
(On the Instructions of the Executors)

Unless Previously Sold In the Marriott Hotel, Ashbourne, Co. Meath

Situation: The property is on the Ballybin – Ratoath road and fronts on to the M2 Ashbourne 2km, Ratoath 3.5km, Dublin 23km

RED area excluded from auction, guide purpose only

Solicitors: Steen O'Reilly, Navan, Co. Meath

Lot 1: 86 Acres 1st Class Pasture Farm

Lot 2: 25 Acre Zoned Industrial and Related Uses

Phone: (045) 988 777 | Valerie 087 653 7757 | Robert 087 255 2282 | Fax: (045) 988 778 | www.gc2000.ie