Is Small Both Beautiful *and* Competitive? A Case Study of Irish Dairy Cooperatives

by
Robert Briscoe
and
Michael Ward
Centre for Co-operative Studies
National University of Ireland
Cork, Ireland

Abstract

Conventional management wisdom maintains that considerable economies of scale are essential if producer cooperatives in the agribusiness and food sector are to meet the needs of their members and survive in a globlized economy. In an effort to achieve these economies of scale, many of Ireland's agricultural cooperatives have chosen over the years to merge with more and more of their neighbors. Some of the biggest of these merged co-ops have chosen to raise money on the stock exchange in order to have the funds needed to finance substantial, international acquisitions. A recent study, commissioned by government and the industry, has argued that merger has not gone far enough and has called for even more consolidation among Irish dairy cooperaitves. The study report argues that the Irish dairy industry is falling far behind its international competitors and much larger processing units are needed to shift the emphasis on to more value added products and adequate investment in R&D. However, in spite of the conventional wisdom, many of the smaller dairy co-ops in Ireland often appear able to pay higher milk prices to their members and to contribute to the sustainability of local communities more effectively than some of the giants. How is this possible? This article addresses the question of how small to medium-sized co-ops are able to fly in the face of conventional economic wisdom. Our research relies on case studies of co-ops, ranging from large to medium and small, and includes the perceptions of co-op leaders.

JOURNAL OF RURAL COOPERATION, 34(2) 2006:119-138 ISSN 0377-7480 ©

Introduction

> *Why is a company the size of Glanbia paying farmers a lower price than smaller co-ops that never amalgamated with anyone?*
>
> (A dairy farmer[1])

According to conventional management wisdom, considerable economies of scale are essential if agribusiness cooperatives are to meet the needs of their members and survive in a globalized economy. But, in spite of the conventional wisdom, many of the smaller dairy co-ops in Ireland seem to be able to pay higher milk prices to their members than some of the giants as well as contributing more fully to the sustainability of local communities. This article addresses the question of how is it possible for small to medium-sized co-ops to fly in the face of conventional economic wisdom. Research for the article draws upon case studies of co-ops, ranging from large to medium and small, and includes the perceptions of co-op leaders.

The structure of Irish dairy cooperatives

Agricultural cooperatives in Ireland are predominantly dairy cooperatives, which are multi-purpose in nature. Although dairy processing is their prime activity, it is not their only activity. They also engage in grain handling and storage, meat processing, farm supplies, and so on. At the end of 2003, there were 31 dairy cooperatives in Ireland, including co-ops with holdings in PLCs (Public Liability Company). These co-ops had a total of 88,646 members and total sales of €5.09 billion (€5,089,811,410). Membership and milk supplier numbers vary considerably from cooperative to cooperative, depending not only on size of the cooperative but also on the farm size structure in their own geographical region. Farm sizes and milk quotas are bigger in the south and east of the country than in the north and west. Moreover, the number of co-ops has steadily declined from the 1960s as a result of amalgamations. The number of dairy farmers, especially smaller farmers has also been in steady decline.

The Irish dairy sector is characterized by a mixture of cooperatives, which range from the very small to organizations (some with PLC holdings) that operate in almost every continent. We can divide them into four main categories, according to their size:

1. *The three Giants* which account for 82 percent of the total sales and 44 percent of the members;
2. *Medium-sized co-ops*, which account for 10 percent of the total sales and 42 percent of the members;
3. *Small co-ops that process milk*, which account for 2 percent of the total sales and 5 percent of the members;

[1] A complaint from a dairy farmer who is a member of Glanbia Co-op, the largest processor of milk in Ireland (Quoted in the *Irish Farmers' Journal*, May 21, 2005, p. 10).

4. *Very Small co-ops that only collect milk*, which is then sold on for processing by other co-ops. They are also often involved in innovative business activities. An example of this is a very small co-op which has secured the exclusive rights to market New Zealand designed cattle ear-tags in Ireland. This has proved to be a very lucrative business. Many of the small and very small cooperatives have deliberately chosen not to merge with the largest co-ops, in order to protect services and create jobs in their locality.

In spite of these wide variations in size, the quality of services to farmer members and the milk prices they enjoy seem to be independent of size, as many of the smaller co-ops are outperforming their bigger neighbors.

The conventional wisdom

This section deals with the ways in which larger cooperatives are following the conventional economic wisdom, and serves as a backdrop to our analysis of the less conventional responses of the small to medium cooperatives.

Merger and rationalization

The Prospectus Report (2003), commissioned by government and the industry, has called for more consolidation among Irish Dairy Co-operatives. This echoes an earlier ICOS (Irish Co-operative Organisation Society) study (2000) calling for a similar strategy. According to Prospectus, the Irish dairy industry is falling behind its international competitors and much larger processing units are required to shift the emphasis on to more value added products and investment in R&D. Larger farm units are also recommended.

> A consolidated player needs to emerge in the medium term with a scale at which it is processing around 70 percent of the processed milk. … it needs to begin with a consolidation between some of the five largest processors and also consolidation and joint ventures amongst some of the small processors.[2]

However, Irish co-op farmer shareholders are relatively slow to agree to amalgamation.[3] Many farmer shareholders have a strong sense of loyalty and pride in their cooperative, which goes well beyond commercial considerations alone. They worry about the impact of amalgamation on local employment and the sustainability of rural communities, concerns which are reflected in the multi-purpose nature of Irish

---

2 Prospectus Report. 2003, p. 12.

3 The merger in 1997 of Waterford and Avonmore Co-ops and PLCs (to form Glanbia) was only accepted when a merger commitment was made to pay a set bonus per gallon of milk above the national milk price audit average for the next three years. Another inducement to support merger was the selling of another *tranche* of the co-op's PLC shares to provide an additional financial incentive for farmers.

dairy cooperatives. Above all, farmers believe that healthy competition between co-operatives, in terms of services and the milk price paid to farmers, leads to efficiencies and is an important method of ensuring farmer influence. Farmers may not have total confidence in the effectiveness of the existing democratic decision-making processes in larger co-ops, especially when that co-op is in a near monopoly situation. This draws attention to the importance of considerations such as active membership, surplus allocation, equity redemption and representative structures.

The presence of co-operatives side by side with PLCs is an added complication in any Irish amalgamation activity both in terms of financial structure, organization strategy and member attitudes. The PLCs tend to regard acquisitions, particularly overseas acquisitions, and in house diversification as even more important routes (than amalgamating with local co-ops) to the kind of growth they require. The PLCs are less concerned with low margin primary milk processing and do not see their major profits coming from this source.

Rationalization & restructuring

While cooperatives are often slow to embrace merger or amalgamation, many of them, particularly the bigger ones, have embarked on rationalization. With the price safety net of intervention slipping away, processing costs at co-op level are being seen as crucial.

In the words of their Chief Executive, *Dairygold Co-operative Society* (Ireland's largest agricultural cooperative) is applying the "*Fix it, outsource it, sell it or shut it"* approach to business. Dairygold has divested itself of a number of unprofitable operations, such as beef factories and a cattle mart, reducing staff by 325. Staff across the remaining operations have been reduced by 500, which cost over €30 million by the end of 2003. Overall, the labor force has been reduced by one quarter. Dairygold is intent upon concentrating new investment into two sites, thus moving away from what is considered to be a fragmented approach to processing. The Chief Executive believes that this situation has arisen to some extent from a failure to fully integrate the merged Ballyclough and Mitchelstown Co-ops into a coherent entity when they amalgamated as Dairygold in 1990. A somewhat similar problem arose following the merger of Waterford and Avonmore to form Glanbia in 1997. For political reasons, rationalization is slow to follow amalgamation in Ireland. This reluctance to rationalize may be one of the reasons why amalgamation may be hard to achieve in the first place.

Glanbia PLC, which is 55 percent owned by Glanbia Co-op, has completed a strategic restructuring of its food operations, and has set aside €6 million to rationalize its agribusiness division, including the closure of seven stores. In 2003, restructuring resulted in an exceptional charge of €92 million, transforming a pre-tax profit of €77.1 million into a pre-tax loss of €14.9 million. The Glanbia restructuring resulted in a shift from the UK to the US. Most of the UK operations were disposed of. They had been purchased during the 1990s (some of this by Avonmore and Waterford, before their merger to create Glanbia in 1997). These operations included liquid milk, food service, cooked meats and fresh pork businesses and cheese. The Glanbia focus is now on growing businesses in cheese-based nutritional ingredients and consumer foods in the US. The emphasis will be on health-based functionality. This is being supported by a new €15 million R&D innovation centre in Kilkenny, employing around 30 university graduates. Glanbia has a turnover of approximately €2 billion.

Many smaller cooperatives are rationalizing their milk transport collection process by outsourcing or making arrangements with neighboring co-ops. *Connacht Gold* is providing a 2 cent per gallon bonus for farmers who invest in new milking storage bulk tanks. This will allow the co-op to move to every third day milk collection. Two or three co-op drivers will work a 24 hour shift with the same lorry. The savings achieved will be used eventually to eliminate an existing co-op subsidy on milk collection.

Acquisitions

Acquisitions (mainly overseas) are a particularly favored route to growth for the Co-op PLCs, and have led to considerable diversification:

- In 2004, *Kerry Foods* spent €665 million on eight acquisitions. Kerry has recently set up a Bioscience Division, thus extending the group's food ingredients platform to bio-ingredient and pharma-ingredient applications. This opens up a new range of customers for Kerry in the pharmaceutical industry, hot on the footsteps of New Zealand's tiny but highly profitable Tatua Co-operative. Kerry has also launched a fragrance operation and markets fragrances for use in home environment, personal care and household products. Back at its Listowel headquarters, Kerry has succeeded in getting 2.5 acres of recently acquired land, rezoned for industrial use. Over the last 10 years, Kerry has invested an average of €4.5 million per year on the continuing development of this site;
- A number of medium sized cooperatives have also grown substantially as a result of acquisitions. *Lakeland* acquired and remutualized Bailieboro, a former cooperative which had been sold into private ownership. Lakeland then went on to acquire the Nestle Omagh whole milk powder plant, which had a 40 million gallon milk pool. Their most recent acquisition is L.E. Pritchett Newtownards County Down, which has a 16 million gallon milk pool. To demonstrate their commitment to the concept of cooperative ownership, Lakeland has integrated all of the suppliers of these acquired companies into Lakeland's cooperative structure;
- Another medium sized co-op, *Town of Monaghan Co-op* has grown through acquisitions. In 2002, Monaghan acquired the Leckpatrick milk powder plant at Artigarvan, Co. Tyrone, and now processes milk in Northern Ireland for the first time. It also produces at its Artigarvan plant, a range of hydrolyzed wheat and rice flours with various applications for end users in the bakery, baby foods, breakfast cereals and high energy foods sectors.

Is small beautiful and competitive?

Less conventional responses

The call for a consolidated player or major amalgamation has not met with widespread support. Joint ventures or federations to spearhead new businesses would appear to be the preferred option for Irish co-ops, judging by their response to the Prospectus Report.

Glanbia's emphasis would be on "Co-operation, shared assets and joint ventures in processing, rather than on mergers or amalgamation",[4] while in the case of Lakeland, "Co-operation among dairy processors at regional level must precede the national consolidation goals arising from the Prospectus Report."[5]

Many Irish farmers and cooperatives are far from convinced by the efficiency and economy argument for large scale milk processing. They point to medium sized societies such as the Town of Monaghan Co-op in Ulster or Newmarket in Munster who regularly outperform the largest co-ops and PLCs on milk price and service to farmers.

> The performance of Newmarket (a medium-sized co-op) is remarkable. With only 8 million gallons of owned quota it is a pace-setter. Newmarket is virtually an all cheese manufacturer, which was a very difficult product to sell last year.[6]

> Monaghan tops the League … It has performed very well over the last three months, paying impressive Spring Bonuses.[7]

The efficiency of small, well-managed cooperatives operating in niche markets also has international parallels. In New Zealand, Tatua Co-op and Westland milk products with less than 5 percent of milk supply outperform the gigantic Fonterra on milk price.

> Some people talk about increasing scale as the panacea to all ills, here it can be clearly seen that of those farms that reduced costs considerably, they did not do it by increasing scale but by cutting out the cost of infertility, machinery and buildings and increasing labour productivity.[8]

---

4 The group Managing Director of Glanbia Co-op at the Agricultural Science Association Annual Conference. Kilkenny, as reported in the Irish Examiner 20/09/2003, p. 10.

5 The Chief Executive of Lakeland Dairies, speaking at the Agricultural Science Association Annual Conference. Kilkenny, as reported in the Irish Examiner, 20/09/2003, p. 10.

6 Joe Rea commenting on the April 2003 milk price league in *Irish Farmers' Journal*, 21/6/2003, p. 20.

7 Joe Rea commenting on the March 2003 milk price league in *Irish Farmers' Journal,* 21/3/2003.

8 Conclusion of Arndt Reil, who completed the cost comparisons study for the 2004 European Dairy Conference in Carmarthen, Wales. Reported in the *Irish Farmers' Journal*, 17/7/2004.

> The group recognizes that reducing costs on farm is one of the main ways a farmer can influence how much money ends up in his pockets.[9]

Irish competitive advantages?

Many co-op leaders, especially those from the smaller and medium-sized societies, argue that it is not legitimate to compare the Irish dairy experience with that of New Zealand or mainland Europe. Irish climate and other conditions confer competitive advantages on Irish dairying because milk can be produced at lower cost relative to mainland Europe. One respondent argued that an Irish supplier with a 55,000 gallon milk quota could generate as much income as a Danish farmer with twice that amount of quota. They argue that Irish co-ops should look more closely at their own achievements and successes of the last quarter century and build on these achievements rather than always looking abroad with a feeling of inadequacy at situations which are not comparable.

Retaining a competitive environment

Many small dairy cooperatives have deliberately followed a strategy of remaining small and independent since amalgamations were first urged by ICOS in the 1960s. They strongly believe that this is the best way of serving their member/users into the future. They point to what they regard as a relatively poor performance by the larger cooperatives and PLCs alike. At the very least they argue that a mix of dairy ownership and scale is a good goal for the industry as it maintains a competitive environment. They mentioned the dairy farmers' nightmare of the Chilean dairy industry, where a single multinational manufacturer decides the price of milk.

The management advantages of smallness

Co-op leaders in this sector argue that small to medium-sized operations can enjoy unique competitive advantages of their own. These include better communications with farmers, staff flexibility, hands-on management, greater motivation and identification. In the words of one manager:

> With hands-on management, we can gradually keep equipment and technology up to date, without having to embark on major investment programmes …often able to spot bargains or acquire pieces of equipment at rock bottom prices from dairies or bigger co-op branches that are closing down and if necessary put it into storage.

Yet another manager claimed:

---

9 A conclusion reached at the 2004 European Dairy Conference in Carmarthen, Wales. Reported in the *Irish Farmers' Journal*. 17/72004.

> As outfits get big, real control is lost … around here the labour force has been reduced gradually with the advent of new technology by simply not replacing staff. So there is no need for big expensive rationalisation programmes, which destroy morale.

In a recent interview, the Chairman of Newmarket Co-op[10] argued that all co-ops need to be proactive to encourage their suppliers to stay in milk production by promoting increased financial management skills amongst dairy farmers. In other words, greater efficiency at farm level is a key issue. A newly formed pressure group, called *The Milk Rights Group*, which is led by a Cork farmer, aims to devise a survival plan for the 15,000 farmers with less than 40,000 gallons of milk quota. Among their proposals is a suggestion that the state/ EU pay smaller farmers an income supplement to ensure their survival on the land.

Living with the Giants

There are essentially two types of small cooperatives. Those which process their own suppliers' milk and buy in as much additional gallonage as possible (for example, Newmarket, which produces cheese, and North Cork which produces casein), and co-ops such as Boherbue, which sell on their milk to a neighboring co-op or private dairy. Boherbue Co-operative Society organizes the collection of their 4.5 million gallon milk pool and sell directly to Cadbury's plant at Rathmore, in County Kerry, for chocolate crumb manufacture. In nearly all cases, the small cooperatives also operate farm supply stores and some have grocery supermarkets such as Supervalu outlets.

While the smaller co-ops are proud of their smallness and independence, they realize the importance of cooperation and co-existence with the neighboring larger co-ops and PLCs. Mullinahone Co-op, for example, is a corporate shareholder in Glanbia PLC. Some small co-ops pay the same milk price as their larger neighbors, even when they could afford to pay more, so as not to cause unrest in their relationships with the nearby giant. At year's end, however, they pay a bonus on milk to reflect the profitability of all their business activities.

> We have a deliberate strategy to keep our milk price in the top five. This keeps the pressure on bigger co-ops, but doesn't shame them as we often depend on their good will.

Smaller co-ops maintain that they are better placed to build up consumer confidence regarding traceability and health issues. This is because they are much more in touch with their farmer suppliers. Stronger links with suppliers and awareness of their needs, together with the flexibility of small scale operation mean that small co-ops can react swiftly to help farmers deal with farming difficulties.

---

10 *Irish Farmers' Journal*, 24/6/2004.

> The adverse weather conditions last summer created serious income pressure on our members that were keenly felt at farm level. As an independent co-operative, we are deeply committed to providing appropriate support for our members, and we swiftly moved to cushion their problems by supporting the milk price throughout the year. Your Society also introduced a further series of schemes aimed at easing the serious financial strain on members, which saw feed prices reduced. These extraordinary measures were taken to help members through a particularly difficult season and were funded from co-op reserves.[11]

Federations and joint ventures

There is much admiration in Ireland for a West Cork federal cooperative known as *Carbery Creameries, Ltd.* Four small to medium-sized cooperatives, Drinagh, Bandon, Lisavaird and Barryroe hold respectively 39 percent, 22.6 percent, 20 percent, and 18.4 percent of the shares in this second level milk processing cooperative. It processes all of the milk (74 million gallons), which is collected by the individual co-ops in their own trucks, which are decked out in the individual livery of each co-op. Each co-op is free to decide on the milk price it will pay to its own members. Despite this, or perhaps because of this, they typically pay the top milk price in the country.

> For the second year in a row, Bandon has emerged to pay the highest price in the country… the second and third highest milk prices in the country last year were also paid in West Cork by Barryroe and Lisavaird respectively. Wexford creameries disrupted the West Cork four in a row by emerging just ahead of Drinagh Co-op.[12]

Carbery is a leading cheese manufacturer (Dubliner Cheese is its best known brand) with some involvement in food ingredients and alcohol. It operates its own dedicated R&D facility. The individual co-ops, which own Carbery, continue to operate independently for the provision of farm stores and services to their members. Indeed, they have separately embarked on diversification programs, depending upon their members' needs and interests. For example, Bandon Co-op has encouraged their farmers to grow onions, which they market through the Supervalu supermarket chain, while Lisavaird is involved in wind energy generation.

The Irish Dairy Board (IDB) is an example of a second level federal cooperative at national level, which is owned by the Irish dairy co-ops. With subsidiaries in the UK, Germany, Belgium, France and the USA, IDB's key objective is to market Ireland's dairy products internationally. It has proved particularly useful for the smaller to medium sized co-ops, enabling them to access export markets. Inevitably it duplicates, to some extent, the marketing activities of the larger Co-op/PLCs, but it still enjoys strong support from the big co-ops as well. With a turnover in 2003 of nearly

---

[11] North Cork Co-operative Annual Report and Accounts, 2002.

[12] Eric Donald commenting in the *Irish Farmers' Journal* on the KPMG Milk Price Audit, 2002.

two billion euro, IDB has enabled small-scale Irish co-ops to enjoy the benefits of large-scale operation.

Its key competitive advantage is the extremely effective *Kerrygold* brand, which is a trusted brand for quality butter in approximately 60 countries. The *Kerrygold* brand accounts for 47 percent of the IDB's total sales, with a third of *Kerrygold* butter being sold in Germany.[13] There is probably considerable potential for using the *Kerrygold* brand image to promote other consumer products in Europe. In recent years, IDB has been highly profitable, with an annual turnover of about €2 billion, with pre-tax profits in 2003 reaching a record level of 36.5 million. This has led to calls from individual farmers and farm organizations for individual shareholding to be allotted to milk suppliers and/or to the freeing up of cooperative equity.

Informal cooperation

There is considerable cooperation between Irish cooperatives and PLCs in relation to milk collection and the use of processing facilities at both OFF peak and HIGH peak seasons. For example, *Newmarket Co-op* in North Cork purchases in milk form neighboring co-ops and PLCs so as to supply its established cheese markets and keep its plant running smoothly and at higher capacity. In turn, the other dairies are happy to supply milk rather than investing uneconomically in higher capacity plant, which they would use only for a short period each year. By supplying milk to Newmarket in off season, they can close down some of their own plant. *North Cork Co-op*, in Kanturk, also enjoys similar informal cooperation with neighboring cooperatives.

Glanbia PLC, in which Glanbia Co-operative Society has majority shareholding, collects about 60 percent of the Mullinahone Co-operative's milk quota of 1.7 million gallons. All the milk testing for Mullinahone is done in the Glanbia laboratories. However, Mullinahone processes all its own milk.

Irish co-ops also cooperate informally on EU milk quota issues. For example, in winter 2003, a small number of *Kerry*, *Lakeland* and *Arrabawn* milk suppliers transferred part of their milk supplies to Connacht Gold and gained access to its large "restructuring" milk pool. The move was supported by all the co-ops involved. Connacht Gold took in the dual suppliers because it had satisfied demand for "restructuring" quota among its existing suppliers. In most cases, the suppliers transferred 5,000 to 10,000 gallons of their milk quota to Connacht Gold, which benefited from an increased milk supply. Kerry, Lakeland and Arrabawn co-ops were happy to support their own members gaining access to additional quota as this increased family farm income.

---

13 Overview of international dairy market provided by Dr. Cawley. *The Northern Standard*. Monaghan, 8/7/2004.

Joint purchasing of inputs

In an effort to reduce farms costs and increase farm income, Irish dairy co-ops have traditionally been involved in running stores to provide farm inputs and supplies. The IAWS co-op was originally set up as a second level cooperative to bulk buy for member cooperatives. More recently, it transferred the bulk of its assets to IAWS PLC, in which the IAWS Co-op has a minority shareholding

The larger Co-ops and PLCs, given their scale of operation, have enjoyed terms with wholesalers, which were not available to the smaller and medium-sized co-ops. This is changing now with the founding of *Associated Trading Co-op (ATC)*. To address this problem, a number of CEOs of smaller co-ops had met in 1996 to discuss the feasibility of establishing a purchasing agency to buy in bulk for their farm supply stores. They decided to set up ATC, an association of co-ops, which would co-ordinate the purchasing of a wide range of store goods, with the aim of improving the profit margins and competitiveness of its members

Cooperative outsourcing

Many smaller co-ops are the beneficiaries of outsourcing from the larger co-ops and PLCs.

Although operating on strictly business lines, cooperative outsourcing is also an indication of cooperation between cooperatives.

Dairygold Co-op has chosen *Town of Monaghan Co-operative* to produce its *Sno* brand of yoghurt products. Town of Monaghan already produces *Spelga Yoghurt* (which is the market leader in Northern Ireland) for Dale Farm, Ltd., in addition to its own Mona yoghurt brand. *Lakeland Co-op* produces HB ice cream for the private company that owns the brand.

It is not just the larger co-ops that are engaged in outsourcing; some of the smaller co-ops have been able to use this approach to enhance their efficiency. *Connacht Gold Co-op* appointed *South Western Services Co-op* to manage its dairy advisory program. Dairygold Co-op and many smaller co-ops, such as *Boherbue*, have outsourced their milk collection to private hauliers.[14]

Diversification and development of dairy products

Many cooperative leaders are annoyed by criticisms from commentators about a so-called over-reliance by Irish dairies on intervention and commodity products. They argue that intervention was relied upon simply because it was the most profitable option available at that time. As times change, more and more co-ops are diversifying.

The acquisitions discussed above, both cooperative and PLC, together with in-house innovations, have resulted in quiet but steady diversification and value-adding

[14] A downside of private hauliers is that a point of contact and communication between farmer and co-op is lost.

of product lines and the identification of new niche markets. But it is not only giants such as Kerry and Glanbia that have been able to enjoy the fruits of diversification. Here are just a few examples of diversification by the smaller cooperatives:

- *Lakeland*'s development of a Food Service Milk Business;
- *Bandon* co-op's involvement in growing and marketing onions;
- *Connacht Gold'*s development of specialized herb butters for export under the Dairy Board's Kerry Gold brand, and under its own brand name for German supermarkets;
- *Tipperary Co-op* produces Emmental and Gouda cheeses, which it markets in France through its cheese-packing and distribution centre at Dijon;
- To provide alternative income possibilities to milk suppliers with capped milk quotas, a number of cooperatives, including *Tipperary Co-op*, have recently become involved in the mushroom business. *Bandon* embarked on its onion diversification for similar reasons. [15]

Diversification in trading and services

Declining numbers in farming, especially dairy farming, can be observed. Irish and EU restrictions on fertilizer use and EU commodity quotas, and structural reforms resulting in less intensive farming, have all combined to slow down demand for products such as animal feed and fertilizers. This has impacted adversely on Co-op stores, and cooperatives have closed some smaller stores and concentrated on building up regional units with a wider selection of farm supplies. This restructuring has not always been popular and further reduces communication between farmer and his cooperative. The larger cooperatives have suffered most in this regard.

In an effort to offset lost farm trade, many cooperatives have been diversifying and restructuring their retail outlets so as to capitalize on an increasing demand for DIY (Do It Yourself) and hardware goods among non-farming rural dwellers and urban dwellers within their catchment area.

Dairygold Co-op has just announced the launch of superstores under a new *4HOME* brand, with the intention of becoming Ireland's leading household goods and DIY retailer. Dairygold is proposing to open 30 new stores countrywide. Ten of these will be within the Dairygold milk catchment area, mainly by developing existing stores. A further twenty will be franchised outlets. The intention here is to help mainly existing smaller independent hardware and DIY stores to compete against the major chains by "buying in" *Dairygold 4HOME* purchasing and marketing power.

Many smaller co-ops are acting similarly to Dairygold. For example, one of the smallest co-ops, Mullinahone, has developed a substantial hardware wholesaling

---

[15] Unfortunately, the mushroom industry has been going through a difficult period of late, but this has resulted in consolidation at industry level with renewed hope for the future. A recent merger has resulted in a new Irish mushroom business, which is 60 percent privately-owned, 23 percent owned by Donegal Creameries, and 17 percent by Connacht Gold. This new company has net assets of €11.4 million and is selling 40,000 tons into the UK annually.

business in Ireland and has a full-time representative based in the UK. In the words of one manager of a small co-op:

> The real market is in catering for hobby farmers and non-farming rural or small town dwellers.

Lakeland Co-op has rolled out a Town and Country Stores retail concept. *Wexford Co-op* opened a new filling station and convenience store near New Ross in mid-2003. *Tipperary*, *Newmarket* and *Boherbue Co-ops* have all recently opened Super-valu supermarkets. In the case of the latter smaller co-ops, the aim has been to service people in more remote communities and to maintain local employment.

This shift by dairy cooperatives to serve non-farmer customers is interesting for a number of reasons. Firstly, the non-farmer customers are not being invited to become shareholders and join in a cooperative project. Profit and cash flow are the main driving forces. Secondly, The consumer emphasis is in the non-food area, at a time when cooperatives and farmers are being subjected to the power of food retailers. Ireland, unlike the UK, has no significant consumer co-op tradition in either food or hardware. Indeed, many Irish dairy cooperatives have dismantled their food shops in towns and villages around the country, at about the time when the amalgamation frenzy was at its peak. This facilitated the unhindered growth of Irish and foreign multiples alike.

Non-agricultural diversification

In an effort to circumvent a declining rate of growth and falling profits in agricultural activities, both cooperatives and PLCs have been investing in non-agricultural areas. As a consequence of the *Celtic Tiger* and the resulting property boom in Ireland, all cooperatives have been paying greater attention to managing their land banks and property assets. Some cooperatives, especially those located in towns have been relocating and/or disposing of valuable property to the annoyance of some of their members. Some co-ops have become directly involved in the development of new commercial property interests. Both *Donegal Creameries* and *Lee Strand* Co-operative have diversified into student apartments. Lee Strand has also become involved in car parks, and their milk suppliers are being paid a four cent per litre bonus from the profits resulting from this type of diversification.

South Western Services Co-op (SWS) has embarked on a major non-farm diversification program. SWS is a second level co-op, owned by Bandon, Lisavaird, Barryroe and Dairygold cooperatives. It has an annual turnover of about €15 million and a net profit of about €2.7 million. The co-op has 230 employees and contract staff and provides farmers with a range of agricultural services, including milk recording, farm relief, artificial insemination, business management and accounting and auctioneering.

SWS has more recently diversified into IT services, which include data processing for a number of government departments, wind energy farms (as far afield as Northern Ireland), a joint venture technology park, a joint venture wood-fired biomass power plant and forestry operations.

Commitment to cooperative values

Co-operative versus PLC: a recommitment to cooperative values?

The dawn of a new millennium saw some milk supplier dissatisfaction with PLC involvement, particularly in the business of primary milk processing. This was fuelled by the desire of some PLCs, to apply to primary milk processing the same profit targets as in secondary added-value food sectors. The farmer milk suppliers did not welcome this. Golden Vale gave serious consideration to remutualizing this portion of its business, but eventually decided to sell its entire business to neighboring Kerry Foods PLC, in which *Kerry Co-op* has a minority holding. The *Kerry and Golden Vale South* milk pools were merged while *Golden Vale North* (formally Bailieboro Co-op, which had been demutualized) was sold on to Lakeland Dairies and thus returned to cooperative control.

In 1997, *Avonmore* and *Waterford* PLCs and Co-operatives merged to form Glanbia PLC and Co-operative. Its failure to perform well, either in terms of profitability or in terms of milk price, led to a questioning of the merits of the PLC approach. Even in 2003, with Glanbia well on the road to recovery, discontent with the PLC structure erupted again. Their fresh milk producers' group, accounting for approximately 30 percent of the Glanbia milk pool, proposed a remutualization of Glanbia PLC with a buy back by Glanbia Co-op

The real significance of this *remutualization* debate is the fact that it is being discussed at all. It raises questions about the suitability of the PLC structure, particularly in the business of primary milk processing. Within the last year, the Chief Executives of both Dairygold and Lakeland Dairies have independently committed their societies to maintaining 100 percent cooperative control, as, in their opinion, it is the most advantageous structure for the primary dairying business. This view would be strongly supported by all of the small to medium-sized cooperatives we have visited.

User owners: protecting cooperative independence

Cooperatives both large and small, including those with holdings in PLCs, have been attempting to remedy two membership problems: on the one hand the problem of inactive members (members who are no longer using the co-op's services) and, on the other hand, users who are not members. Some of the smaller co-ops, who now have relatively few active milk supplier shareholders and a sizable number of non-user shareholders, are particularly vulnerable. The problem is all the more serious, given the asset value of the cooperatives concerned.

A number of cooperatives have recently won approval for restructuring their membership into A and B shareholders, with the B shareholders (inactive and retired), no longer enjoying voting rights. North Cork and Lee Strand are examples of small co-operatives that have managed to introduce this type of restructuring. However, some co-ops have attempted but failed to bring about this reform, while others are afraid even to attempt such reform in case it would destabilise the co-operative and encourage a takeover bid.

Rural development activity[16]

Unlike most of their European counterparts, Irish agricultural cooperatives, though referred to as Dairy Co-ops, are actually multi-purpose co-ops. Traditionally, they have had a broad-based developmental role. More recently, both cooperatives and PLCs have involved themselves in EU programs, such as LEADER. Cooperatives, such as Lakelands, Town of Monaghan, Newmarket and North Cork, have drawn attention to the importance of servicing part-time farmers and providing off-farm employment. The ICOS is also very much involved in rural development activity and offers consulting and advice to both LEADER groups and cooperatives.

The logic of overseas acquisitions by PLCs, with cooperative shareholding is supported by many farmers, especially the larger ones, as essential for development in a highly competitive global food market. Other farmers, however, especially smaller ones, are beginning to question who will really benefit from such development – milk suppliers and rural dwellers, or outside investors? Smaller farmers are increasingly realizing that their future depends on the local availability of well-paid, off-farm and part-time employment. They are looking towards their cooperatives to provide leadership and investment to this end.

Given the declining numbers in dairy farming and the increasing scale and economies required at farm level, Irish cooperatives will have to consider adopting an even broader developmental role in the rural community if they are to meet the needs of existing members. This wider focus might also provide useful roles for the retired farmer. It would also provide a wider role for those cooperatives with investments in PLCs, in using their allocated surpluses from the PLCs.

The role or obligation of cooperatives, in promoting broad-based development, draws attention again to the membership issue. From a cooperative perspective, the development process must actively involve *those to be developed*. There are lessons here for cooperatives becoming involved in non-core farm activities, whether they be IAWS, SWS, Dairygold or smaller cooperatives.

The consumer perception: an alternative cooperative approach

Failure to meaningfully and cooperatively involve non-farmers consumers in co-op stores or indeed to become more directly involved in food retailing may well be a missed opportunity. A recent survey by Agri-Aware found that more than 60 percent of Irish consumers see retailers as the major profit takers on key foods such as bread,

[16] This discussion draws heavily on Ward (2000).

milk and vegetables. Only 30 percent believe that farmers get a fair price for their food while 72.7 percent of Irish consumers would pay more to guarantee food traceability, safety and assurance.

During the 20th century, Irish agricultural co-ops have worked tirelessly to maintain farmer power and influence. In common with agricultural cooperatives internationally, they have done so within the prevailing conventional scientific model of farming. Farmers and consumers remain divided, allowing the unhindered development of middlemen in the form of giant retailers to exploit them both. The Agri-Aware survey would lend support to the view that consumers do recognize the importance of farmers and their pivotal role in the food chain. This may be an opportune time for agricultural co-ops to reach out to consumers and begin to build a new co-operative model, which respects and empowers both producers and consumers.

An alternative cooperative approach to organizing the food industry and feeding ourselves is gaining momentum both internationally and in Ireland.[17] This approach combines less intensive, mainly organic production with collaboration between producers and consumers in the form of farmers' markets and community supported agriculture initiatives (CSAs). It promotes respect for the environment and the countryside by putting emphasis on quality, taste, value for money, traceability and connection with the land, rather than packaging and convenience.

Farmers' markets can now be found in most parts of Ireland at weekends. One of Ireland's oldest organic food markets is run on Saturdays in the heart of Dublin by the *Dublin Food Co-operative*. This co-op brings together both consumer and producer members and involves a high degree of voluntary labor. It provides a democratic, power-enhancing model, which might well lend itself to the more conventional farmers' markets, which are as yet rather informal and therefore open to possible influence and takeover by other vested interests in the supply chain.

The concept of the *CSA (Community Supported Agriculture)* is a more radical approach to linking farmers with consumers. CSAs are cooperative partnerships between groups of consumers and nearby farmers. They aim to cut out all of the middlemen between the farmer and the consumer and use the money saved to increase the prices paid to producers while reducing the cost of high quality food to the consumer. Farmers and consumers in the North Cork area of Ireland are at present exploring the feasibility of establishing a CSA as a way of building on an existing organic farmers' market. There may well be scope for existing cooperatives, especially the smaller ones, to become involved in this kind of initiative. They would allow for the direct selling of dairy and other products to the consumer and the building of brand loyalty, independent of the supermarkets. The expertise of existing co-ops in financial management, marketing and cooperative organization would be invaluable to these emerging producer-consumer food markets.

---

17 This issue is discussed more fully in Ward (2005).

Marketing the cooperative difference

One strategy, which appears to have been largely ignored in Ireland, is the strategy of marketing the cooperative difference. Little attempt has been made to communicate on the packaging of co-op brand products (or anywhere else) that there is something special about cooperatives, that these are businesses owned and democratically controlled by farmers who take a pride in the quality of their products. This is all the more surprising considering that recent surveys in America and Canada have reported that approximately two thirds of consumers surveyed say that they trust cooperatives and would rather buy farm products from farmer-owned cooperatives. A recent consumer survey suggests that Irish consumers might well have similar positive attitudes toward Irish farmers and their cooperatives. According to a survey published by Agri Aware[18], consumers have confidence in Irish farmers as producers of quality foods. The majority of respondents perceived retailers as benefiting most from the price of foods and farmers benefiting the least. In the age of Enron and WorldCom (not to mention recent banking scandals reported in Ireland), promotion of the cooperative difference could provide Irish cooperatives with a distinctive competitive advantage, which could be difficult for others to imitate, and would enable cooperatives to create a successful brand image (the sort of brand image that Kerrygold has managed to create in Germany).

Conclusions

Small can be risky but so can PLCs

Many would argue that staying small is just too risky. The small co-op is denied economies of scale, putting itself at a cost disadvantage when dealing with the giants. Moreover, small co-ops, like small football clubs, cannot afford to buy the most expensive talent, so will be condemned to a lingering, twilight existence in the depths of the third division.

But many of the leaders of the smaller Irish dairy co-ops point to the competitive advantages of smallness. Their arguments are supported by Arndt Reil's recent study which showed that Ireland's relatively fragmented dairy industry is, for the second year running, at the top of the profits league, well ahead of such mighty competitors as Denmark, Holland and Belgium. And, within the Irish industry, the small players have been highly entrepreneurial and are able to match and often exceed the milk prices of the giants.[19]

Scale issues in production, marketing and purchasing are addressed with the help of a variety of federations, joint ventures and second level co-ops. It is also arguable

---

18 Pat Bogue, "Consumer Perspectives on Agriculture". *Agri Aware*, November 2003.

19 Arndt Reil's cost comparisons study compiled for the 2004 European Dairy Conference in Carmarthen, Wales. Reported in the *Irish Farmers' Journal*, 17/7/2004.

in co-op circles that the most expensive talent is not necessarily the best. It is instructive that perhaps the most successful network of cooperatives on the planet, the Mondragón Co-operative Corporation, limits the range of salaries to a ratio of lowest to highest paid of about 1:6. This highly entrepreneurial group has also addressed the problem of retailing dominating the food supply chain. The Eroski group of businesses, many of which are multi-stakeholder co-ops owned jointly by consumers and workers, has become one of the largest retailers in the country and has achieved considerable economies of scale in its purchasing and marketing activities by setting up a joint venture with a French retailer-owned cooperative.

Perhaps the greatest risk confronting Ireland's cooperatives is the danger of demutualization, particularly in the smallest co-ops. In spite of their best efforts, many Irish co-ops, large as well as small, are in the unenviable position of having a substantial number of members who are not active farmers. This means that it may be in the financial interests of a strong cohort of non-user members to demutualize a co-op, even though it is highly efficient at meeting the needs of its user members. The PLC path brings with it the danger of users losing control to outside investors, interested in making money from farmers and not for them.

Cooperative solutions for changing needs?

The socio-political climate of the post *Celtic Tiger* years is less supportive of cooperative ways of working. The *privatization-income tax cutting* agenda of the Thatcher/Reagan era has been adopted enthusiastically. Officialdom has even raised the question of whether or not cooperatives really need their own central registry. Some are keen to keep a foot in both cooperative and conventional camps. This is perhaps why Ireland pioneered the peculiar hybrid of the Co-op/PLC. Perhaps it is also why co-ops in Ireland seem reluctant to market the cooperative difference as a key competitive advantage, in marked contrast to the UK Consumer Co-operative movement, which is using the cooperative idea as the basis of a successful brand image.[20]

There is also reluctance to develop new kinds of cooperative solutions to the changing problems of Ireland's agricultural co-ops. Even though some co-ops now have more workers than member suppliers, and others sell more through their retail outlets to ordinary consumers and gardeners than to farmers, no attempts have been made to consider the possibility of developing multi-stakeholder models which could breathe fresh life into businesses which are often lacklustre. Again, this is in marked lack-lustre contrast to the innovative strategies of Mondragón and ignores Shann Turnbull's well-argued demonstration of the competitive advantages of multi-stakeholder mutuals (Turnbull, 2000) in the age of Enron.

Whilst we have questioned the non-involvement of other stakeholders as co-operative members, diversification into non-agricultural activities has been driven by

---

[20] Briscoe and Ward (2000), pp. 41-57.

the desire to improve the viability of their member-farmers. Agricultural cooperatives are still predominantly focused on the best ways to meet producers' needs. However, many of their diversification strategies are market-led by perceived consumer needs, but without actively involving the consumers in ownership and control. Perhaps the most promising way forward is for consumer and producer to recognize that their mutual needs can be met more effectively only if consumers and farmers cooperate with one another. The seeds of this strategy are already evident in the farmers' markets and community-supported agriculture partnerships that are burgeoning in North America, Japan, mainland Europe, the UK and Ireland.

References

Bogue, P. (2003). *Consumer Perspectives on Agriculture*. Dublin: Agri Aware.

Briscoe, R. and Ward, M. (2000). *The Competitive Advantages of Co-operatives*. Cork: Centre for Co-operative Studies, UCC.

——— (eds.) (2005). *Helping Ourselves: Success Stories in Co-operative Business and Social Enterprise*. Dublin: Oak Tree Press.

ICOS (2000). A Strategic Review of the Irish Dairy Sector. Dublin: Irish Co-operative Organisation Society.

Prospectus Report. (2003). *Strategic Development Plan for the Irish Dairy Industry. Processing Sector*. Commissioned by the Irish Department of Agriculture & Food, and Enterprise Ireland, in conjunction with the Irish Dairy Processing Sector.

Turnbull, S. (2000). *The competitive advantages of stakeholder mutuals*. http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=26239

Ward, M. (2000). "Ireland's Multipurpose Dairy Co-operatives" in R. Briscoe and M. Ward (eds.) *The Co-operatives of Ireland*. Cork: Centre for Co-operative Studies, NUI Cork.

——— (2005). "Feeding Ourselves II: Farmers' Co-ops and Food" in R. Briscoe and M. Ward (eds.) *Helping Ourselves: Success Stories in Co-operative Business and Social Enterprise*. Cork: Oak Tree Press.

empty left page