

Consultant's Perspective on Joint Ventures

By Bill Synnot

This paper is aiming to provide a check list for those interested in forming a co-operative especially those that are rural based and export orientated.

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This paper looks at the following :

- Australian scene;
- The cooperative principles;
- Cooperative's strengths and weaknesses;
- Compares cooperatives with public companies;
- Looks at the Coonamble Beef Feedlot and Marketing Cooperative; its objectives, farmers' comments and perceptions, and the results of a SWOT analysis;
- Discusses the issues in selecting a joint venture partner from overseas;
- How organisations like ICA can help.

1. Australian Scene

In general the Australian scene sets the background to the environment that Co-operatives operate in. There are 5 main points that are relevant; they are :

- **Deregulation of the economy** – this means for agriculture the Statutory Marketing Authorities are on the decline and this creates opportunities for farmers to add value to their produce and to get closer to the market place.
- **Liberalisation of markets especially Japan and Korea** - this means that more channels are open to get access to overseas markets especially niche markets.
- **Regional emphasis** – the government has committed itself to make more facilities available to help regional areas develop; regional development means development of rural industries.
- **Value-adding and export** – there is a commitment to help value-adding and export industries as the basis for growth and development of the Australian economy.
- **Aboriginal support** – there is a commitment to address the imbalances of the past.

3. Cooperative Principles

There are 6 basic principles of the Co-operative movement; they are :

- Open and voluntary membership;
- Democratic control by members;
- Limited interest on shares capital;
- Equitable distribution of surplus to members;
- Education of members in the co-operative principles;
- Co-operation among co-operatives.

Weaknesses

- i. **Raising capital** – Co-operatives experience difficulty raising funds through the traditional sources like equity markets and banks. Alternatives like Co-operative Capital Units have been developed and are being used eg. NORCO. Also there are some lending institutions like QIDC that do lend to co-operatives.
- ii. **Image problem** – Co-operatives lack the cosmetic appeal of publicly listed companies. Co-operatives are treated like the poor cousin. On the other hand the co-operatives are really the quiet achiever.
- iii. **Members dominated board of Co-operatives** – Members dominate the boards of the co-operatives; there is a need for “outside” directors to offer greater expertise especially with the legal tightening up of the responsibility of directors, ie. due diligence.
- iv. **Different legislation between states** – the lack of uniformity in legislation between States makes it hard for co-operatives to operate inter-State.

4. Comparing Co-operatives to a Public Company

The weaknesses of co-operatives can be seen as the strengths for listed companies. On the other hand listed companies have 5 disadvantages when comparing with a co-operative; they are:

- **Loss of privacy** – a public company has more public disclosure requirements than a co-operative.
- **Increasing accountability** – more public reports on financial performance and regulatory responsibilities are required.
- **Vulnerable to hostile take-overs** – the spread of ownership in co-operatives, ie. one member one vote, makes it hard for a hostile take over to happen; thus management can concentrate on managing and operating the organisation, rather than preparing to handle any current or potential hostile take-over bids.
- **Corporate investors with different vision** – usually corporate investors are most interested in regular returns on their investment; this is different to the vision of the members of the co-operative.
- **Largest shareholders dominate and dictate** – the more shares a shareholder has in most listed companies, the more power he has; he dominates and dictates to the smaller shareholder.

5. Case Study : *Coonamble Beef Feedlot & Marketing Co-operative, Coonamble*

The objectives of the Coonamble Beef Feedlot and Marketing Co-operative (NSW) are :

i. Primary Objective

To facilitate improved returns for its members so that the economic well being of the area is improved and employment opportunities are increased.

ii. Secondary Objective

- The provision of alternate marketing outlets for district production, particularly beef, but also grain and other intermediate products.
- The development of an integrated beef production system within the district that adds value using local raw materials.
- Multifaceted, which avoid the problems associated with middlemen and commission agents, which are much more focussed on what the consumer wants and the transmission of that message to the breeder, finisher and processor.

6. *The Farmers' Comments/ Perceptions in Coonamble on the beef Co-operative*

This is based on a survey of farmers conducted in December 1993 to January 1994. As part of the survey respondents were asked to indicate the good and bad points of a beef and marketing co-operative. The results (refer table below) were that around 1/3 saw the co-operative as a market for their farm produce; 1/5 saw it as having no good points and 16% saw it as providing employment for the district. While the bad points were around, 2/3 stating none and around 1/4 were worried about the history of mismanagement in co-operatives.

The findings need to be qualified as this co-operative has just started and is not in production. It is investigating the different options. Also the survey was conducted soon after the demise of the Federal Co-operative Association.

The results to the question “*What do you see as the good and bad points of a beef co-operative in general?*”

Good Points	% of Answers
Markets for grain, cattle & fodder	30
None	21
Employment	16
Strength in numbers	11
Value-adding	7
District to benefit	5
Consistent quality	5
Others	5
Bad Points	% of Answers
None	62
History of co-opt mismanagement	26
Finance	4
Supply of inputs	4
Others	4

7. SWOT Analysis on the Coonamble Beef Feedlot & Marketing Co-operative,

A SWOT analysis looks at the strengths, weaknesses, opportunities and threats. By identifying each of them, an organisation can build on its strengths; correct its weaknesses; exploit its opportunities and advert its treats.

Strengths :

- i. Local available inputs like grain and livestock;
- ii. Local abattoir that is up-gradable to export standard;
- iii. Nearest abattoir to pastoral districts of the north west;
- iv. Feedlot and abattoir within walking distance; this will minimise stress related to handling and bruising;
- v. Environment (including remote location, weather, ground water regime and soils) more conducive than wetter and more densely populated areas;
- vi. Co-operative structure;
- vii. Support of Shire and State government;
- viii. Size of herd and grain crops;
- ix. Extension of present farming operations;
- x. Existing background feedlotters.

Weaknesses :

- i. Lack of investment capital;
- ii. Unclear market path;
- iii. Unclear co-operative path;
- iv. Unclear co-operative structure;
- v. Seasonal fluctuations;
- vi. Feedlotting and meat processing are high volume and low margin operations.

Opportunities :

- i. Liberalisation of world beef markets;
- ii. Up-gradable local abattoir;
- iii. International Co-operative Alliance;
- iv. Farmers keen and able to add value to their products;
- v. Available work force.

Threats :

- i. Competition securing available land and/ or abattoir before co-operative;
- ii. Current and proposed feedlots near the shire;
- iii. Other abattoirs, especially those with a feedlot nearby.

8. Why should Local Farmers Belong to the Beef Co-operative?

Some of the reasons why local farmers should belong and support a co-operative are :

- i. Secure and additional market for their farm produce like cattle and grain;
- ii. Adding value to farm products especially cattle like selling meat in a carton rather than on the hoof or hook;
- iii. Reducing selling costs in Australia and overseas like cutting out the middlemen;
- iv. Management services like providing the latest technology and information to produce a more marketable product at a more profitable price.
- v. Allow more breeder cattle on each farm by putting the fatteners, that normally graze on pastures, into feedlots.
- vi. Producers develop a better understanding of and have more control over the marketing of their produce.

The members are looking for “more dollars in their pockets”.

9. Selecting a Joint Venture Partner from Overseas

There are several issues that co-operatives should keep in mind when looking for an overseas joint venture partner; they are :

- i. **Partner shares the same vision** – ie. a co-operative where benefits to members are more important than return on shareholder funds;
- ii. **Share financial benefits** – financial benefits allocated to each partner in relation to risks and inputs put into the project;
- iii. **Partners compatible** – ie. each partner brings compatible expertise like marketing, finance, management skills, etc., that the project needs and can benefit from;
- iv. **Networking** – ie. use the co-operative movement to develop links with potential markets;
- v. **Understanding cultural differences** – if dealing with a people from different cultures, there is a need to spend sometime researching and understanding their culture, so as to understand their way of doing things and to reduce the chance of making an “unintentional cultural gaffe”;
- vi. **Get the structure right** – this refers to ownership and organisational structure;
- vii. **Employ top management and allow them to manage-** allow the management to manage the daily operations and have a board that meets regularly to determine policy but not to interfere in the daily operations;
- viii. **Use outside advice** – like consultants and outside directors to obtain the expertise not available on the board, from members and staff of the co-operative.

I once worked for a successful business man who did most of his business deals through partnerships, and his philosophy was simple and effective; it was :

“partnerships work when all parties to the partnership are willing to put in more than they want to take out”

ie. if there is a 50/50 partnership and both parties are willing to put in 51% or more effort, it will be successful.

10. Issues that need to be kept in mind when looking for a joint venture partner

It is important to spend some time reviewing the issues mentioned below. This will reduce the chance of making a mistake. To fix a mistake at a later date can be very expensive in both time and money.

- i. **Compatibility of partners** – share the same vision and add balance to the expertise the co-operative already has;
- ii. **Need for outside expertise** - ie. consultants, outside directors and financial advisers;
- iii. **Capital to handle development stages** – ie. government assistance;
- iv. **Keeping co-operative members on-side** – ie. educational learning curve and make sure that the decision makers are not out of step with their members;
- v. **Move slowly** – ie. start small and build upward slowly;
- vi. **Ownership structure** – seek advice to make sure that the structure reflects the current and perceived future needs of the co-operative;
- vii. **Sourcing of funds** – ie. capital expenditure and working capital needs;
- viii **Management** – ie. control and independence;
- ix **Government help** – ie. post development stages.

11. International Co-operative Alliance (ICA)

There are areas that the ICA's help; they are :

- i. Networking in international markets;
- ii. Finding suitable joint venture partner(s);
- iii. Assisting new players in the co-operative movement with the advise on ways to make a co-operative successful.

An important part of the success of export orientated co-operatives is the help the ICA can do in networking to find suitable overseas joint venture partners and markets. For example, the local feasibility study conducted by COFFEYMPW in association with Bill Synnot and Associates for the Beef Co-operative in Coonamble has identified some comparative advantages for establishing an integrated feedlot/abattoir at Coonamble. If the ICA can help find suitable partner(s) that will offer some extra advantages, like marketing, then the local comparative advantages are further strengthened and enhances the chances of success.

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