



Co-operative Business Model Case Study



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Introducing Norco

The Norco story

The North Coast Fresh Food & Cold Storage Co-operative Company Ltd (Norco) began operations in Byron Bay in New South Wales on 5 June, 1895. The concept underpinning the decision to form a co-operative was a central factory dedicated to the principles of co-operation, equipped with a mechanical separator and refrigeration plant that would give consistency in butter quality, allowing farmers to access better prices.

Today, Norco is a 100% Australian farmer owned dairy co-operative with 326 active members on 220 dairy farms in northern New South Wales and south east Queensland. Annual milk production is 211 million litres. It is one of Australia's top 20 co-operatives, as measured by turnover which reached \$510m in 2015. Norco employs 750 staff.

"[T]here seems to be one overwhelming point of difference about the co-operative that has transcended through time and the generations of people involved in the business and which almost gives Norco a heartbeat. There is an acknowledgement that each generation is simply the custodian of the co-operative's substantial assets that have been built up over time and there is a communal sense of responsibility that these assets need to be passed on to the next generation in an even better condition than that in which they were received – to ensure the continued future of Norco." Norco 2015 Annual Report.

Purpose and strategy

Norco's purpose is to build wealth, security and sustainability for its shareholders, business partners and employees.

This is achieved by:

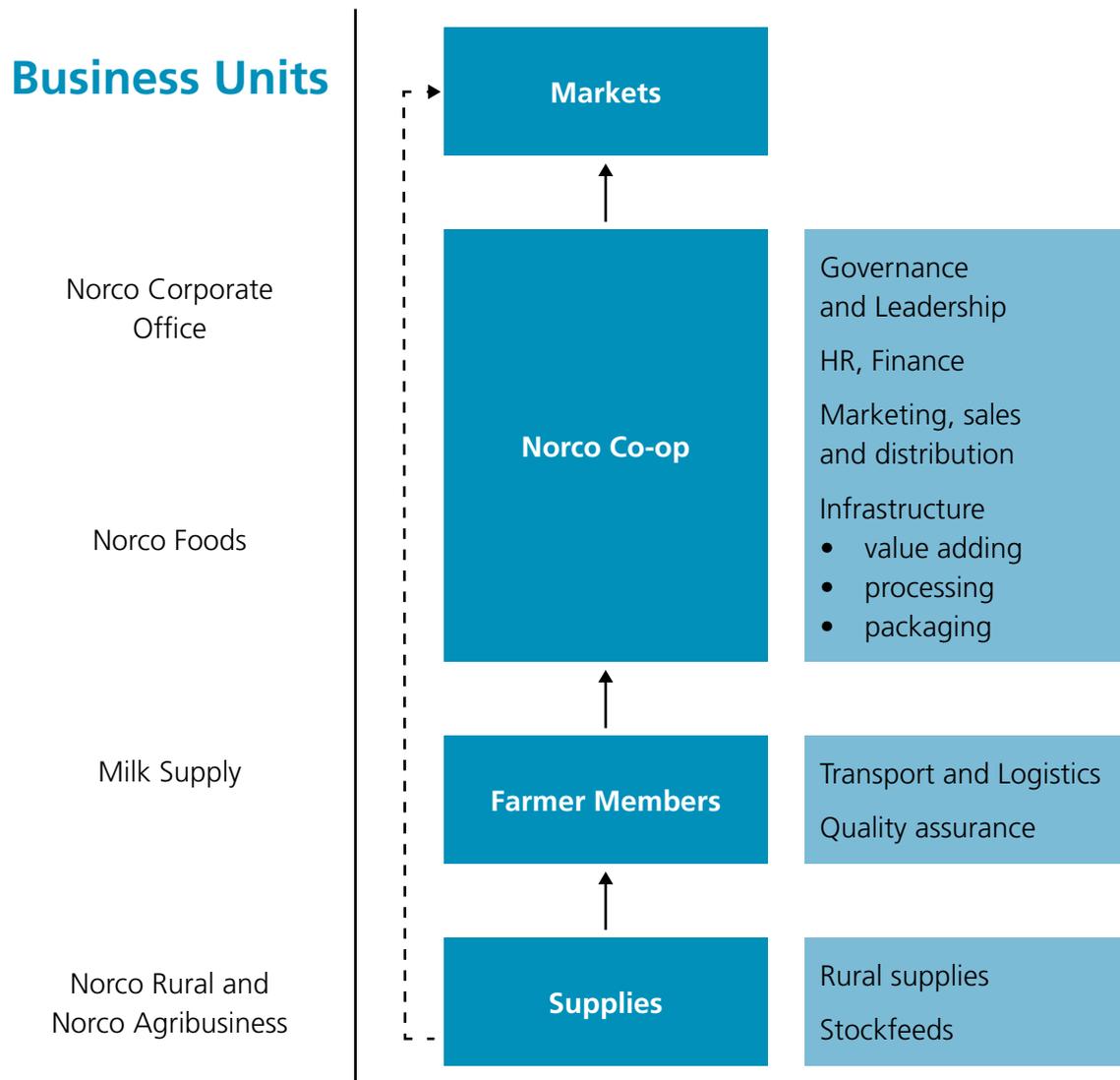
- Maintaining a diverse and strong range of businesses;
- Being a competitive regional purchaser and supplier of milk; and
- Creating integrated solutions for its partners.

Norco's strategy involves:

- Creating a sustainable farm base which can produce quality dairy products, both domestically and internationally;
- Growing the customer base utilising provenance and heritage as points of difference;
- Achieving the 'right' business mix between retail, route and export; and
- Balancing farmgate returns, retention of profit for capital expenditure, and rewarding members for their investment and loyalty in the co-operative.

How Norco works

Norco comprises four business units that work together to process and market members' produce and provide competitively priced rural supplies and stockfeeds. This vertically integrated business model allows Norco's members to control, either directly or indirectly, a large portion of their supply chain.



Key roles for the co-operative are to facilitate:

- Milk processing and value adding; and
- Marketing, sales and distribution services.

These are the roles of the **Norco Foods** business unit. Norco operates milk factories at Labrador in south east Queensland and Raleigh in north east New South Wales and an ice cream factory at Lismore in New South Wales.



The Norco **Corporate Office** at Lismore administrates the functions needed to manage and govern the organisation.

The **Milk Supply** unit provides transport and logistics services and quality assurance. This business unit manages the daily receipt of milk from farmer members, including managing milk movements ex farm and factory.

The **Norco Rural Stores** and **Norco Agribusiness** units support member dairy operations by providing rural supplies through 31 rural retail outlets as well as bagged and bulk stockfeeds. Norco is also involved in commodities trading and sales of rural supplies to non-members.

Norco Business Model

Norco's business model provides further insights into how the organisation works and keys to its success. Important aspects of the business model include:

- Branding, marketing and distribution, including products and distribution channels;
- Norco's governance model;
- Organisational culture; and
- Financial benefits for members.

Branding, marketing and distribution: Providing members with access to markets and better prices

Norco's branding, marketing and distribution function is a key aspect of its business model, forming a substantial part of its operations and driven by two executive team members.

In November 2012, Norco reacquired its marketing, sales and distribution business from Fonterra; who distributed, marketed and sold Norco milk under licence between 2007 and 2012. Regaining control over this important function allowed Norco to:

- Improve its ability to negotiate directly with the wholesale and retail sectors providing a direct link from the farm to the supermarket shelf;
- Build strong relationships with retailers, enhancing the co-operative's ability to secure and extend supply contracts;
- Increase brand presence, sales representation and targeted marketing, which has led to improved sales volume and profit; and
- Establish new export value chains.

Provenance

Branding is central to Norco's business, with a strong brand having multiple benefits including customer loyalty, quality assurance, and community pride.

Provenance is Norco's point of difference globally and aligns with:

- Growing interest in where food is sourced;
- The co-op's history and reputation for providing wholesome and reliable products;
- Quality assurance and product traceability back to co-op member/owners (family farms);
- Preference for Australian fresh produce with a 'clean and green' reputation.

Strength through diversity

A key strength of Norco's business model is diversity in both

- The range of products manufactured and sold; and
- Markets and distribution channels.

Diversity of products

Delivering a diverse range of products helps Norco to increase profitability and keep ahead of changing consumer preferences. For example, enhanced profitability achieved through ice cream sales has improved capacity to pay a higher average milk price to members.

Milk collected from members is processed in a variety of ways to produce a diverse range of branded and generic products including:

- Whole chilled milks;
- Modified, flavoured and organic milks;
- Cream and custards;
- Premium, light, low fat and specialty ice creams;
- Stick confectionary; and
- Frozen yoghurt.

In addition to fresh and frozen milk products, Norco markets, sells and distributes

- The Nimbin Natural cheese range;
- Sorbets;
- Rural supplies; and
- Stockfeeds.

Rural supplies such as seed, fertiliser, pet food and hardware are sold through retail outlets throughout Northern New South Wales and South East Queensland. Manufactured stockfeeds are sold bagged through Norco Rural stores and delivered in bulk direct to farm, including to Norco's milk supplier members. Brands include Goldmix, Crest and Groommaster.

New innovative dairy products include lactose free, Jersey, and unhomogenised milks.

Image: Norco Milk Truck and Trailer at Norco's factory, Labrador.



Diversity of markets and distribution channels

Diversification of markets reduces risks such as the possibility of not having a large contract renewed or losing large volumes of customers to competitors. The potential consequences for members are reduced through diversity of markets and distribution channels.

Route Trade

Norco sells a wide range of its products to 84 franchisees that distribute Norco milk and other foodstuffs to small businesses including corner shops and cafes. Norco has always held a strong position in the route trade in regional areas in New South Wales and Queensland. The primary focus is on premium product offers.

Coles contract

Norco entered into a five year contract with Coles to supply approximately 65 million litres (equivalent to 500,000 bottles of milk each week) of Coles branded milk annually commencing in July 2014.

Sales to other supermarket chains

The volume of sales to Aldi and Woolworths is growing as a consequence of strengthened relationships with these retailers.

Exports

Norco is expanding its international value chains and has recently pioneered sales of fresh Australian milk to China. Sixteen Norco export products including ice creams will be produced, initially for markets in China, Japan and the Philippines. Norco is export ready for other destinations.

Image: Norco franchisee David Blunden and Murwillumbah IGA store owners Brett and Leanne Bugg.



Game changer: Exports of fresh milk to China

Norco recently worked with Dairy Connect and PGS, an international export logistics consulting company, to implement Australia's first milk quarantine clearance agreement with China. This cold chain pipeline solution has brought the delivery time well within the shelf life of fresh Australian pasteurised milk.

'Authenticateit' is used to ensure quality assurance. This is a 'smartphone app that alerts customers if a product is potentially unsafe, unauthorised or counterfeit – simply by scanning the product's barcode.' Milk is sold through one of China's largest retailers 'Aeon Guangzhou'.

There are several factors that ensure Norco's reputation as a manufacturer of premium dairy products internationally and achieved a premium price.

- Sourcing the highest quality milk from suppliers;
- Maintaining product integrity in transport;
- Satisfying the stringent testing regime of the Chinese Inspection and Quarantine service;
- Developing long term relationships with a distributor and retailer in China;
- Meeting Chinese consumers' expectations.

Image: Chilled Norco milk in Chinese supermarket.



Governance: Taking care of Norco's assets

The co-operative is governed according to a set of rules (charter) and the Co-operatives National Law (NSW). The rules represent a contract between the co-operative and each member, the co-operative and each Director and Officer of the co-operative, and between the members.

The one member, one vote democratic principle is an important aspect of Norco's governance. Smaller farmers have an equal say to much larger farmers and this ensures that the big farms don't take over the decision making of the co-operative. Each active member has an opportunity to vote at General Meetings and can vote for, or nominate to become, a Director of the co-operative. Generally only just over 50% of members vote on a ballot, the remainder choose not to. Norco is working to increase this percentage.

Profits are essential for the long-term sustainability of the co-operative, however profit maximisation is not at the expense of keeping a clear focus on the organisations purpose and member needs.

Board of Directors and Executive

The co-operative has a Board of Directors that is charged with managing and controlling the business of the co-operative. The Board can make decisions quickly because it only has to ask the members for major decisions such as listing or selling the business. In this case a 75% voting majority would be required.

The board is made up of six farmer members who are charged with the responsibility of looking after the assets owned collectively by the members. This generates a high level of custodianship that helps to ensure decisions are made in what are considered to be the best long term interests of the farmer members.

"it is a sense of responsibility that our farmers and our farmer Directors are custodians of a lot of stainless steel under a structure that is working... there is an overwhelming responsibility to keep the co-operative strong and to be there for the best interest of the member growers as a collective to ensure that they have always got a home for their milk." Mark Myers, Co-operative Secretary.

The members elect the board on a rotational basis (so that only two directors retire each year), and then the board members elect the Chairman annually. In addition, up to two independent directors may be appointed to the board. Engaging more independent directors that are sympathetic to the co-operative model would bring in relevant expertise and governance capability that the farmer board members could learn from. Independent directors are nominated by the Board and elected by the members.

Norco's executive team comprises the Chief Executive Officer, four General Managers, Chief Financial Officer and Human Resources Manager, with the Co-operative Secretary reporting to the Chief Financial Officer. The Chairman and CEO work closely together to drive the direction and success of the organisation.

Member communications and engagement

Information is communicated to members through the annual report, meetings in supplier locations, an informal communications network that brings small groups of members together and newsletters. There are two rounds of meetings with members each year where the Chairman and CEO update members on important decisions that the board has made or is considering. Members are encouraged to participate in meetings, facilitating a two-way flow of information. This is a consultative process within the co-operative model where milk producers selling their milk to a multinational corporation may not benefit from.

Member and director education is needed to ensure that members understand and are aligned with the business strategy. There is a commercial imperative for the co-operative that is not always well understood by farmer owners.

Transparency of information, including how the profits and rewards are distributed, and ensuring that all members receive important information at the same time is crucial for maintaining good member relations and forms part of Norco's internal policies and processes.

Image: 1902 Board meeting.



A culture that values people: Engagement with members, community and employees

Norco's culture and way of operating demonstrates that a co-operative is much more than just a business model that provides economic benefits to its members. Norco's leadership actively promotes a culture of consultation and involvement with its members and communities. The co-operative's pursuit of a culture that values people demonstrates its commitment to corporate responsibility and citizenship.

"There is a fundamental belief within a core group of its membership and its employees that we actually bring something to the region and without it there would be a lesser region..." Greg McNamara, Chairman.

The business is strengthened by this culture in that members remain on its books, the board is able to make decisions that are acceptable to most members, and its products are valued by the community.

Culture starts with the Board

The culture of Norco is set by the Board who "walk the talk" and lead by example. The consultative culture of Norco is assisted by the writing of codes of behaviour into its charter, including measures of transparency. However, beyond the legislative requirements the board members of Norco have developed a strong set of values and strive for:

- Sustainability of the business by servicing the needs of people;
- Diversity in personality and skill set of members; and
- Representativeness, leading to democratic outcomes in decision making.

In combination, this provides the appealing outcome that a common goal is strived for, but can be arrived at in a number of possible ways.

Image: Staff of the Alstonville Rural Store (from L Drew Warburton, Ian McClintock (Branch Manager) & Darren Linton).



Building social capital for members

The co-operative practices a communicative approach providing regular opportunity for members and Norco's leadership to interact. This is both informative and educational as members acquire latest news from the co-operative and management stay informed about members' situation.

The culture has developed over time from:

- Successive generations of families participating in the co-operative despite the lure to cash-out the farm;
- Personal service and tailored products from the co-operative;
- Solidarity from getting through the tough times together; and
- An ideology and practice of support for local farmers.

The attention to a member's social needs and wellbeing is holistic and reinforces the sustainability mantra. This attention to matters other than those purely financial leads to substantial participation by members in the co-operative including:

- High levels of member turnout at bi-annual meetings;
- Members hold key positions on the board; and
- Management decisions and proposed changes are discussed with members at meetings.

Similarly the co-operative's leadership strives to engage members through:

- Advocacy;
- Training and extension;
- Consultative policy making; and
- Welfare and safety programs.

The business prospers from this with reputation amongst dairy farmers spreading.

"they can see and they know what's going on and they all talk to each other... ..that's built a credibility, so the co-op has given them security..." Brett Kelly, CEO.

Image: Toowoomba Rural Store employee Trent Pobar visiting and servicing a Norco dairy farm.



Engagement with the community

Norco has a history of being part of its communities and lives up to its role as a large entity that is engaged with community members and the dairy industry. The support for its products, by locals and members, reflects the ideals and value people place on Norco. It is a mutual connection where people continue to be involved commercially and socially with the business.

The co-operative is regularly involved in community activities such as sporting events and local shows, where Norco representatives engage with community members and donate products. Norco's trusted brand and reputation provides a symbolic means for the community to associate with their own area.

Norco's identity with people in the northern New South Wales and south east Queensland regions reinforces Norco's business strategy by building trust and loyalty. It is an asset specific to Norco, developed over its long history, which provides a point of difference compared to other organisations.

"if you have 100% loyalty you would truly have that circular co-operative... ..people purchasing, spending, producing, selling back to the co-operative and it would be truly self-sustaining and I think that is probably what we all recognise is a good model"
Mark Myers, Co-operative Secretary.

Norco provides substantial support to its communities through providing economic and social benefits to its farmer members. The support for people in Norco's regions is also demonstrated through providing employment for large numbers of local residents. These rural communities rely on the success of farmers and the availability of employment opportunities.

Image: Steve McCarthy (Norco Member and Milk Supplier) of Budgee QLD and his supreme champion cow of the Dairy Spectacular, Ascot Park Elton Wanda. The top three Guernsey cows at the Dairy Spectacular and their handlers Allan, Tegan and Julie Clark (Norco Members and Milk Suppliers) of Caniaba NSW, Norco Director Leigh Shearman (between Tegan & Julie) and on the right is the judge, Graeme Hopf, Murwillumbah.



Employees Valued by the Business

The co-operative places great value in its employees and fosters their development. As such, Norco has increased:

- The reputation of a responsible place of employment (Workplace health and safety is advertised widely);
- Employee satisfaction through quality training and access to advice on issues relating to their livelihood and long term future;
- Personalisation of staff in the business rather than remaining anonymous or having little status; and
- Staff retention during restructuring phases of change.

Through these means, the business shows its commitment to the people who work within its various divisions. Many employees are regularly in contact with members, which means they are not distant or separated from other stakeholders but are a visible part of how other people conduct their operations.

Image: Toowoomba Rural Store staff.



Member benefits and payments: More than just the price of milk

Norco's farmer members receive a range of payments and indirect economic benefits. Total member returns comprise payments for milk supplied, dividends and a supplier patronage scheme reward. In addition to these direct financial returns, there are indirect financial benefits that accrue to members including the provision of credit facilities and reduced financial risk. Norco also provides its members with training and extension services, advice from agronomists and field officers, study tours, and special assistance in times of need such as natural disasters.

Total member returns over the past six years have ranged between 52.19 and 57.22 cents per litre comprising mostly milk payments, with dividends and supplier patronage rewards generally making up less than one cent per litre of the total return. These additional rewards are something that co-operative members receive that milk producers supplying to a corporation do not generally get, and can add up to quite a large amount each year.

There is a balancing role for the board between paying more to members and retaining funds within the co-operative to invest in projects that improve long term profitability and sustainability.

Image: Norco member and milk supplier Ken Wadsworth, Bangalow NSW.



Competitive payments for milk supplied

Norco's farm gate returns are some of the highest in the country. The co-operative has a policy of picking up every litre of milk that members produce. Milk supply prices vary across states, and in order to remain competitive Norco has recently taken the decision to introduce a regional milk price to increase its competitiveness in some markets. In addition to normal payments for milk supplied, Norco sometimes releases additional retrospective payments to members.

The board and management see it as their responsibility to place members' milk in the highest returning market. Norco's supply strategy is to secure a long term contract base of supply and sales volume in all supply areas. Increasing the length of member milk supply agreements reduces the farm gate risks by ensuring that members stay in the co-operative for longer and members are rewarded for entering into long term milk supply agreements.

Norco actively manages its membership and only admits new members to match contract and other revenue opportunities. This is different to the early days of the co-operative and many other co-operatives today that have an open membership. Existing members are given an opportunity to increase production when opportunities arise, for example signing of a large contract with a supermarket.

Image: Norco member and milk supplier Warren Gallagher, Clunes NSW.



Dividends

Norco strategically allocates distributions to farm gate pricing of milk rather than share dividends. The flexibility to provide returns in the form of higher farm gate prices rather than increased dividends allows the co-operative greater leeway in providing an income to members. High profits and dividends are not as essential for co-operative structures compared to corporate structures where shareholders expect both. This allocation of member returns complements the co-operative's growth strategy by direct promotion of farm sustainability and encouragement of new membership.

The amount of dividends paid to members is based on a recommendation by the board that is approved by the members. Over the past six years, dividends paid have ranged between 0 and 7 percent of share value, averaging 4.43 percent per annum.

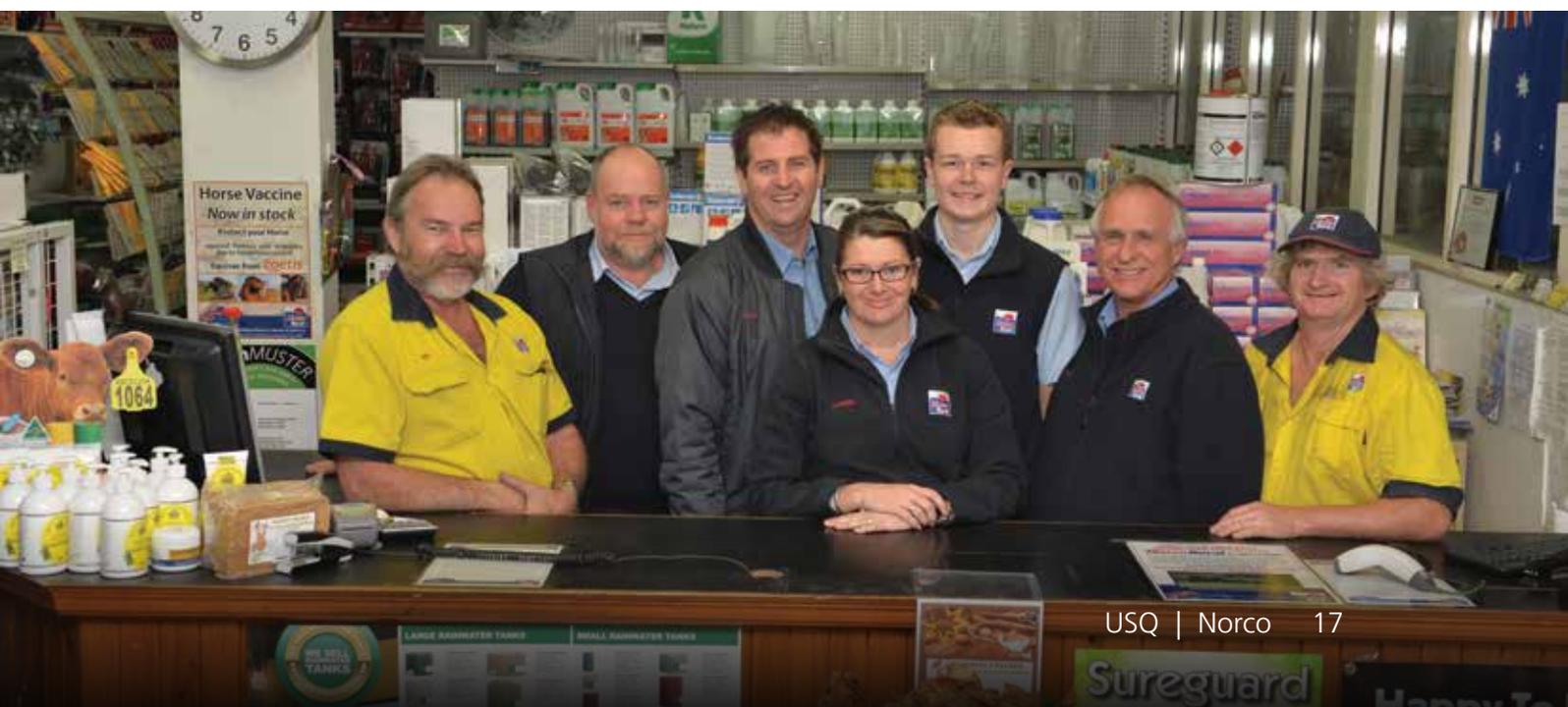
Rewards for shopping (Supplier Patronage Scheme)

Members are encouraged to support the co-operative through its rural retail and agribusiness divisions. Rewards through a patronage scheme increase the circular flow of funds to capture supply chain margins. Prioritising the farm gate price rewards efficient farmers as lower cost producers gain additional margin from their milk. There is an incentive for individual producers to improve their production efficiency.

Rural Retail and Agribusiness services to members:

- Broadens the revenue base including revenues from non-member sources;
- Decreases input prices of key inputs for members;
- Capture profit margins that are reinvested in the co-operative and its membership; and
- Reduces risk through control of supply chains.

Image: Norco Lismore rural store staff, one of many stores supporting dairy operations.



Interest free accounts at Norco Rural Stores and stockfeed mills

Providing credit facilities for members overcomes the long term issue in Australian agriculture of liquidity shortfalls during downward fluctuations. Often members are small and medium businesses, who require credit to develop the business. Norco offers 'Interest Free Extended Accounts' to members who shop with it.

- The co-operative's collective ability to manage risk means that a member can access some credit on favourable terms;
- These credit facilities are balanced with a 60% limit of the purchase preventing over exposure to risks;
- Credit program broadens revenue bases for Norco particularly the long term level.

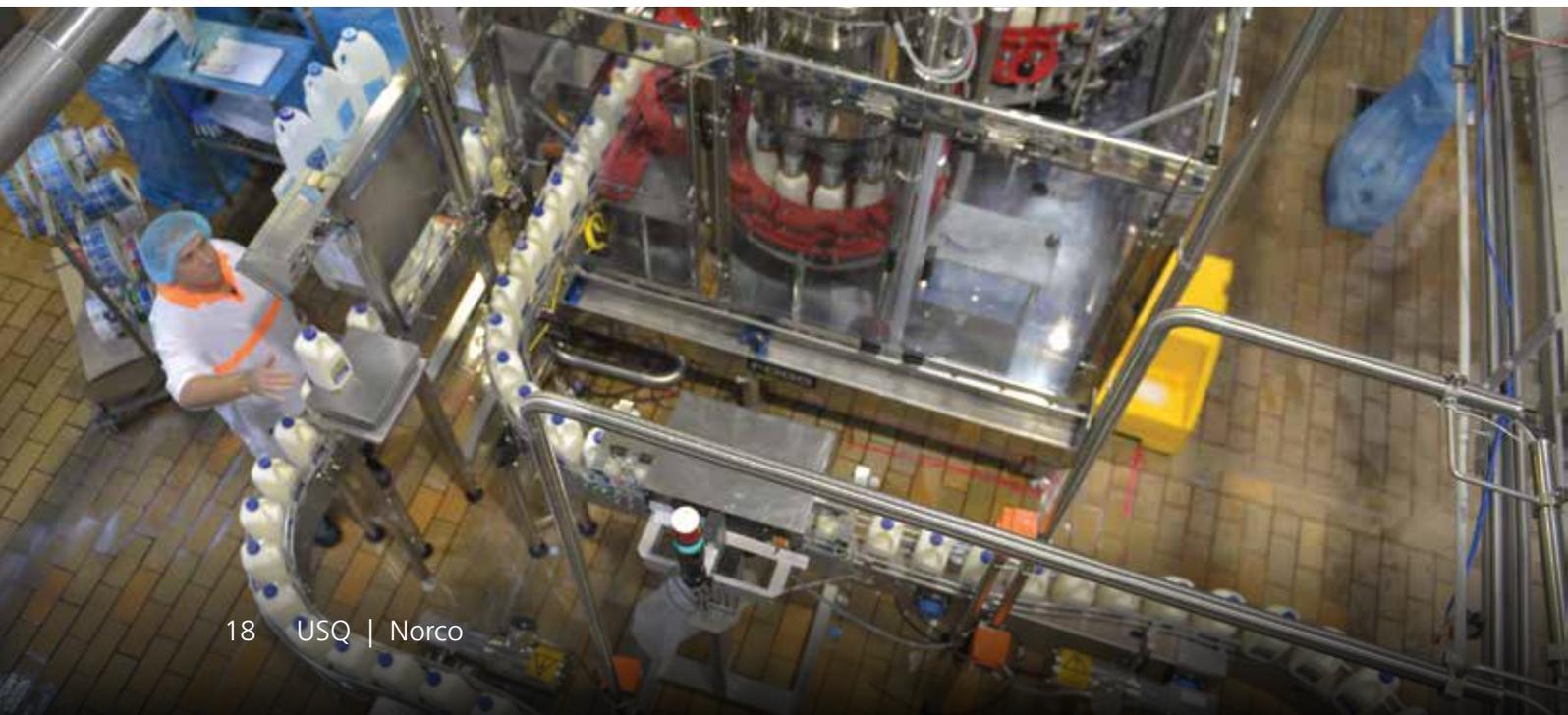
Financial risk management

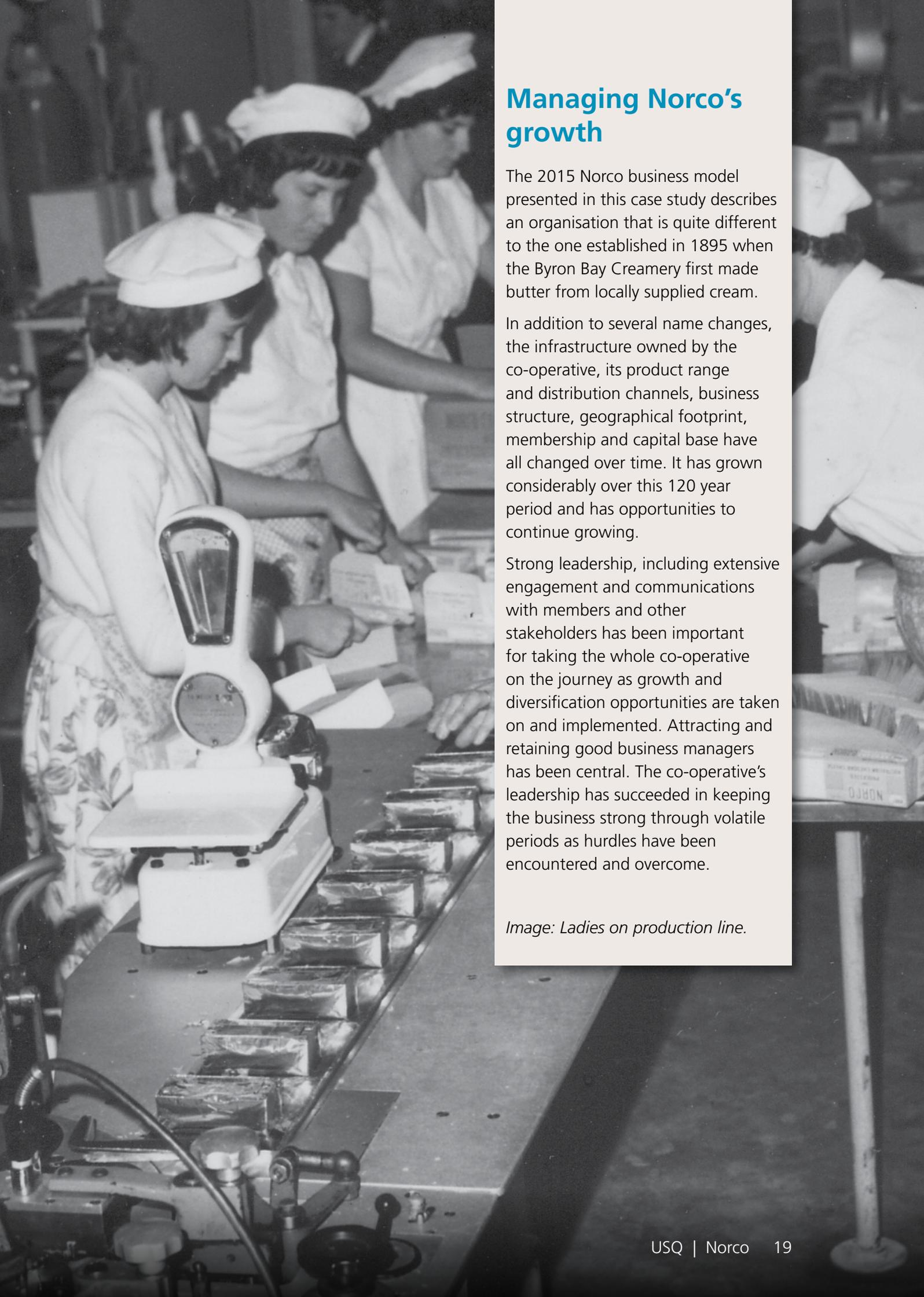
Organisations like Norco provide the opportunity for small and medium businesses to negotiate participation in supply chains. In particular, to move away from the price-taking position farmers generally face. While Norco experiences some variation in financial outcomes of each business unit, diversification through four main business enterprises reduces overall risk. Fluctuations are caused by:

- Seasonal variation influencing farm supply;
- Changes in demand from consumers;
- Investment in plant and equipment;
- Entry and exit from markets as Norco negotiates contracts; and
- Change in business structure.

This variation is important for the co-operative. Variation occurs due to market conditions and Norco's responses to these changes. As an intermediary in the market between farm producers and retailers, it is partially the co-operative's role to accommodate this variation. It has greater ability to manage these risks, upside or downside, than individual members. This is demonstrated with Norco's maintenance of farm gate returns in the presence of changing EBITDA trends.

Image: Norco Labrador factory milk production.





Managing Norco's growth

The 2015 Norco business model presented in this case study describes an organisation that is quite different to the one established in 1895 when the Byron Bay Creamery first made butter from locally supplied cream.

In addition to several name changes, the infrastructure owned by the co-operative, its product range and distribution channels, business structure, geographical footprint, membership and capital base have all changed over time. It has grown considerably over this 120 year period and has opportunities to continue growing.

Strong leadership, including extensive engagement and communications with members and other stakeholders has been important for taking the whole co-operative on the journey as growth and diversification opportunities are taken on and implemented. Attracting and retaining good business managers has been central. The co-operative's leadership has succeeded in keeping the business strong through volatile periods as hurdles have been encountered and overcome.

Image: Ladies on production line.

Business structure and geographical footprint

The structure of Norco has changed substantially over time, although from its inception access to the supply chain to increase prices has been its priority. In doing so, a number of expansions have occurred, as well as divestment of business units as needed.

"...the advantages for Norco is that we are smaller and more flexible, so you can always move a lot quicker and make decisions in a smaller business situation..." Brett Kelly, CEO

This plasticity in business structure has ensured the longevity of the business. It is a result of entrepreneurial outlook which has provided growth over time.

Local focus, almost from inception, allowed Norco to provide a diversified product range such as dairy and bacon products. This decision was based on the local community aspiring to access markets for these products outside the region. Locality and logistics effects are still influential in the co-operative's structure. The co-operative has increased its service to new geographic areas in response to:

- The need to grow membership and raw milk supply;
- Capture of potential markets for agribusiness and rural retail;
- Capture of new markets both domestically and internationally; and
- Protect established supply chains from competitors.

The co-operative has changed structurally over time, taking on new business units or divesting others. Agility and flexibility allow the co-operative to continually search for value and avoid losing relevance to its customers.

Strategically, the co-operative has acted for the long term benefit of its members. It has chosen to retain its co-operative structure rather than being corporatized. The closer alignment of the co-operative's interests with members over the traditional corporate customer-supplier relationship has meant:

- A local business continues operating when a corporate structure would struggle to do so;
- Solidarity and some security for the members against larger interests;
- Member farms have collaboratively gained from the incentive structure instead of being competitors;
- Greater support for community interests.

As a co-operative with existing members, a new product or service line has the potential to attract custom. An existing business relationship between members and the co-operative is closer than the customer-supplier relationship and with the focus on lowering the member's input prices, rather than the supplier's profit. The co-operative provides a cost advantage for products and services through shortening and controlling more of the supply chain.

Membership and capital base

Capital can be a constraint to growth, and this is particularly the case for co-operatives compared to other business structures such as listed companies.

"...the biggest challenge we would have is raising enough capital to go to the next level..." Brett Kelly, CEO

Member shareholdings

The primary source of capital for Norco is the shareholdings of its members. Minimum shareholdings vary according to when the member joined the co-operative. Incoming members since November 2012 must hold a minimum of five thousand shares, with each share having a nominal value of \$1.00. Members that joined the co-operative in earlier years were required to hold less shares. The next generation of dairy farmers are encouraged to become members and take an ownership stake in the co-operative.

A degree of due diligence is undertaken before admitting a new member. Only active members are considered, with active membership being defined in terms of milk production, milk receipt and supply to the co-operative, or supply of other goods or produce. Members that become inactive for more than one year may have their membership cancelled and shares forfeited and repaid. This helps to ensure that active member ownership and control are not eroded. Further, members that fail to meet their obligations to the co-operative may be expelled.

Members can accumulate additional shares through conversion of dividends to shares, compulsory share acquisitions that are in place from time to time, voluntary acquisitions of additional shares and share transfers. The current Compulsory Share Acquisition Scheme provides additional capital to the co-operative to repay former members, thereby freeing funds for Norco to invest for the benefit of continuing members. The effect of the scheme is that farmer members contribute \$0.0025 cent per litre of milk supplied with the eventual aim that each member farm holds a minimum number of shares equal to 10% of the number of litres of milk supplied.

Image: Norco members and milk suppliers Steve and Jenny McCarthy with cattle, Budgee QLD.



Capital raising

Sources of increased equity capital include compulsory share acquisitions under the scheme, contributions from new members and retained profits. Retained profits are an important source of capital. In addition to traditional bank financing, Norco has explored alternative forms of financing to support its growth over time.

Norco's primary sources of debt are trade payables and secured term loans. Current debt levels appear to be sustainable and the co-operative is reporting profit after interest and repayments.

- Debt has been increased to facilitate expansion;
- Turnover of products has increased substantially, which in conjunction with notable contracts, has allowed Norco to take on debt for plant upgrades;
- Debt management is based on an expectation of increasing market size; and
- On hand cash is increasing.

Norco embraced the use of Co-operative Credit Units (CCUs) earlier than other co-operatives, with two issues of Norco Capital Units (NCUs) in 1993 and 1994. The purpose of the scheme, similar to debentures, was to refinance Norco's debt at a lower interest rate. There are two types of NCU's, a short term instrument and medium term instrument. Notice had to be given to the board of Norco to redeem the instruments (6 and 12 months respectively). The NCUs were an attractive investment with a yield 1% above 12 month bank deposit rates for the short term instrument and 2% above 36 month bank deposit rates for the medium term instrument.

Like CCUs issued by some other co-operatives, the scheme did not fulfil its subscription. Ultimately the targeted funding fell well short, raising \$2 million of the \$10 million asked for. The Norco Capital Units were issued during a time when the co-operative wasn't performing strongly, and this impacted investors' willingness to invest and stay invested in the co-operative.

A series of joint ventures have been undertaken as a means of resourcing and accessing markets. It continues the theme of change within the business and reduces the need for capital raising if the joint venture is successful. Joint ventures have been investigated to promote existing business units such as dairy, or to establish new units such as electricity.

The co-operative has ceased some joint ventures, reversing earlier decisions as needed. This has not prevented the co-operative from undertaking subsequent collaborations and they have continued to look for alternative methods to conventional finance.

Future growth opportunities and challenges

Management has stated its intention to continue growth and has dedicated resources to it. However, growth is not for growth's sake. A bigger co-operative may not increase the welfare of its members. It must grow in a way that individual members receive benefit. Norco's leadership is not keen to expose its members to increased volatility of prices that can cause difficulties for farmers such as when a large contract is lost or export prices fall dramatically.

Management states the following goals:

- Increasing the number of members;
- Increasing the volume of products supplied to export markets;
- On-going cost minimisation of operations; and
- Capital raising.

The number of potential new members is limited due to the number of dairy farms in suitable geographical locations. In addition, Norco faces increasing competition for members to supply emerging export markets.

Entering the Chinese fresh milk market has presented challenges that need to be worked through if higher volumes of supply are to be achieved. Building relationships requires an understanding of cultural differences, while the online distribution channels preferred by many Chinese consumers of Australian milk present unique challenges.

Raising additional capital to support growth will continue to be a challenge. Norco's 1993/4 issue of CCU's demonstrated the challenges co-operatives face when raising external capital and investors' need for security of their investment. This is less likely to be a concern in the current environment.

A further challenge faced by co-operatives like Norco is a perceived lack of understanding politically of the co-operative model and how it fits with the rest of the commercial world. For example, government grants, subsidies and schemes that are potentially available for corporations and other businesses don't always fit the co-operative structure.

Image: Cows in paddock overlooking Byron Bay, NSW. Plastic milk bottles after being blow moulded at Labrador, QLD.



Five Key lessons from Norco's experience

For the past 120 years, Norco's members have collectively come together for the common purpose of having their milk produce marketed. This iconic farmer owned dairy co-operative has grown and reinvented itself many times over its long history, making it a potent example of truly resilient and sustainable business.

The following five lessons come from Norco's experience and can be applied to other co-operatives.

1. Owner members require an economic imperative to join and stay in the co-operative.

Competitive farm-gate pricing is vital for matching milk supply with demand and ensuring the continued success of the business and its member farms. The board and management see it as their responsibility to place members' milk in the highest returning market. New members are only admitted to match contract and other revenue opportunities. This allows Norco to keep its promise of collecting every litre of milk that members produce.

Other economic benefits for farmer members make co-operative membership an attractive option and include annual dividends, patronage scheme rewards, credit facilities, training and extension services, and assistance in times of special need such as natural disasters.

2. A co-operative is more than just a business model that provides economic benefits to its members. To be sustainable, a co-operative must also provide social benefit.

The social capital that Norco creates plays a large part in ensuring the success and sustainability of the co-operative. Norco's leadership engages with, supports and values its members, employees and community.

Communications with members is paramount and includes:

- Embracing a consultative process;
- Providing regular opportunities for farmer members and the co-operative's leadership to interact;
- Transparency of information; and
- Increasing the ability to take the whole co-operative on the journey as growth and diversification opportunities are taken on and implemented.

Building member loyalty reinforces the circular, self-sustaining model of people purchasing, spending, producing, and selling back to the co-operative.

3. Strong governance is needed to protect members' assets and for business sustainability.

Members are at the centre of the Norco co-operative and how it is governed and operated. Having farmer members on the board generates a high level of custodianship that helps to ensure decisions are made in what are considered to be the best long term interests of the farmer members.

The one member, one vote democratic principle is an important aspect of Norco's governance. While profits are essential, profit maximisation does not compromise democracy and keeping a clear focus on purpose. There is a natural tension between director representation and commercial reality. Director and member education is important to ensure a sound understanding of commercial imperatives and alignment on business strategy.

4. Australian farmer owned co-operatives have a positioning advantage

Norco has successfully embraced provenance as a point of difference that can be used to grow customer base and command premium prices. This positioning advantage includes reference back to

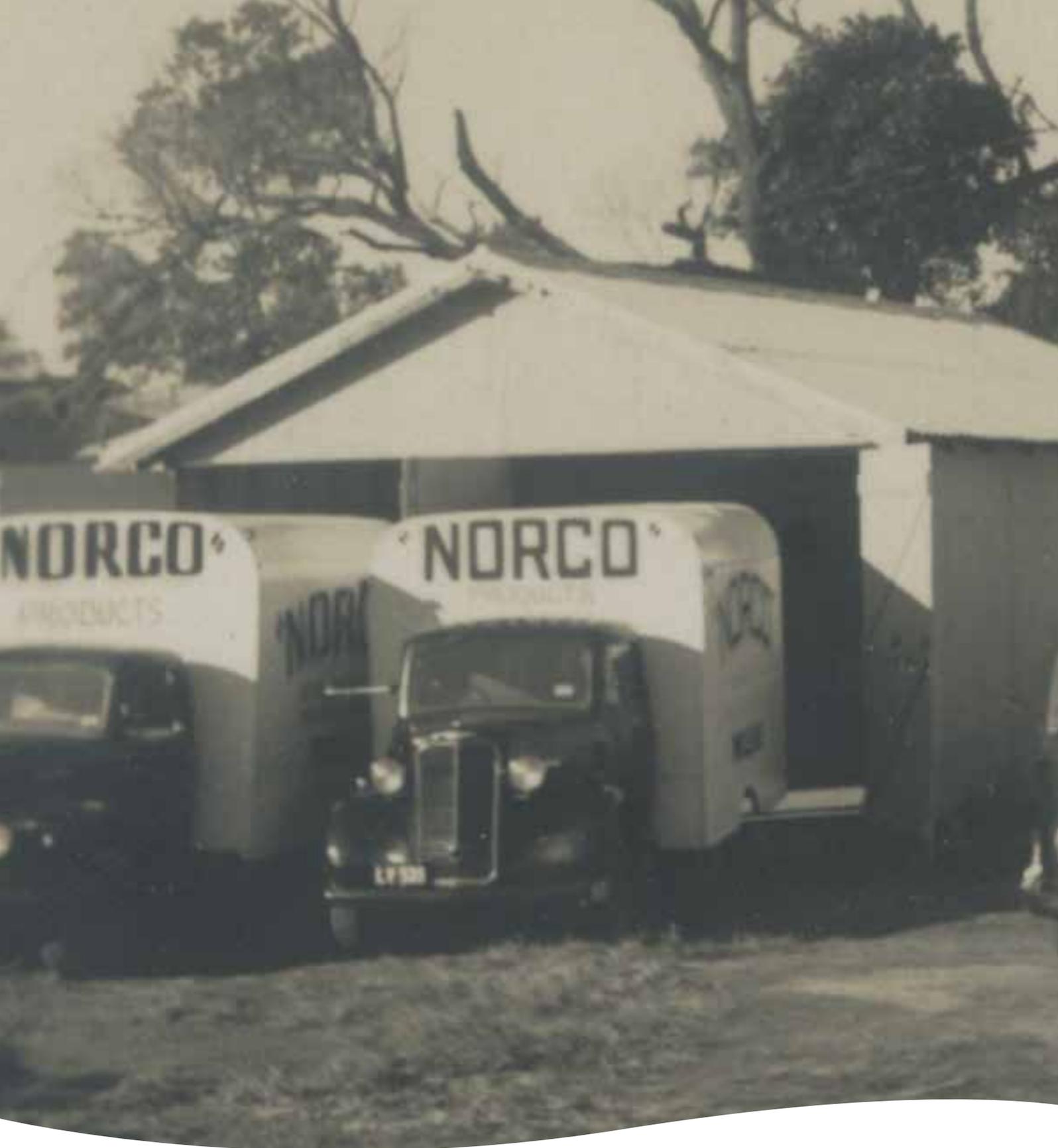
- Its history as co-operative embedded in a rural community;
- Family farm ownership; and
- Australia's clean and green image.

Based on quality assurance and a reputation for wholesome, premium products, Norco has been able to develop its brand to increase its market competitiveness. Building strong relationships with retailers and other key customers is important, and provenance has been used to advantage.

5. The life cycle of a co-operative is a continual evolution that demands agility and commitment

Norco has been able to grow and adapt to changes in its external environment over time, while considering the best interests of members and remaining true to its purpose. Managing the tension between members' needs and commerciality has been achieved through effective leadership and communication. As a dairy processing and marketing co-operative, effectively managing Norco's value chains and business operations in competitive markets requires commercial acumen.

Agility has been essential to adapting the co-operative's infrastructure and capital base over time to support growth and changing product and market opportunities while maximising total benefits for members. The nature of the challenges has varied over the life cycle of the co-operative as it has grown and competitive conditions have changed. This ability to adapt has been fundamental to building a sustainable competitive base.



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