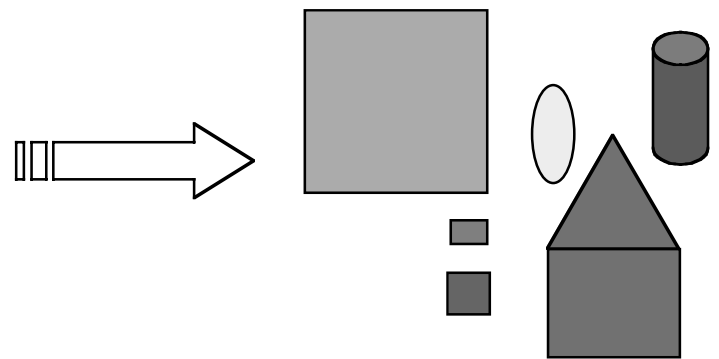


Changes Underway in Co-operative Organizations



- Larger Co-ops (Mergers)*
- Loss of Co-ops (Failure)*
- New Co-ops – New Areas,
New Forms, New
Relationships with Members*

Structure of Presentation

- Look at three main co-op sectors
 - Financial
 - Agriculture
 - Retail
- Few comments on other co-op areas
- Lessons learned

Financial Sector

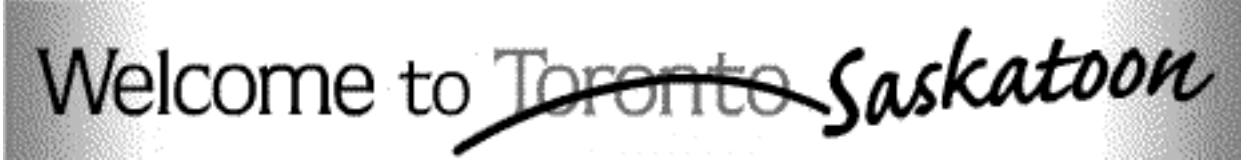
- New regulatory structure – competition from foreign banks (e.g., Wells Fargo) & from non-traditional sources (e.g., trust & insurance firms)
 - Potential for mergers by existing companies (e.g., Big Six to Big Four)
 - New technologies – IT systems that integrate branches, ATMs, telephone & Internet banking
 - Changing social relationships – increased mobility, desire for access to financial services and information at anytime
-

Response By Credit Unions

- Get bigger through mergers
 - Sherwood Credit Union ⇒ Conexus Credit Union (merger with Assiniboia, Moose Jaw, Chamberlain, and Bethune Credit Unions)
 - Coast Capital Savings & Surrey Metro Savings (2nd largest in Canada)
 - Envision – Delta & First Heritage (4th largest)
 - Island Savings and Coastal Credit Unions
 - Invest in new IT technology
-

Response By Credit Unions

- Lobbying for creation of a national Co-op Bank
- Consolidate & coordinate back-office functions
- Renewed attempt by some credit unions to differentiate themselves from banks
 - Guelph and Wellington Credit Union have purchased the name www.unbank.coop
 - Emphasis on community involvement



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Adaptation Success of Credit Unions

- To date, reasonably successful in adapting
 - No major failures
 - No major loss of market share
 - Retention of service in some areas (e.g., rural areas) where it might have been lost
 - Renewed focus on local in some communities
 - Nevertheless, concerns about growing size – financial stability, member commitment
-

Agricultural Sector

- New regulatory structures – NAFTA, WTO, removal of the WGTA
 - Entrance of multinational competitors – e.g., Louis Dreyfus, ADM, Smithfields, Parmalat
 - Increased concentration in many sectors
 - Increased demand for quality and consistency
 - Increased concerns about food safety
 - Structural changes in the nature of farm production and the relationship of farmers to the rest of the system
-

Changing Structure of Agriculture

Traditional Agriculture

- Commodities; spot markets
- Farms carry out many activities
- Product chain stages seen as independent
- Price and production risk
- Concerns about monopoly pricing
- Money and assets prime source of control

"New" Agriculture

- Differentiated products; negotiation, contracts
- Specialization; separation of production stages
- Focus on a system; stages seen as interdependent
- Relationship risk; food safety and health
- Concerns about access to information
- Information as prime source of control

Source: Adapted from Boehlje

Warburtons and Wheat - A New Agriculture Example

- Warburtons - A British bakery
 - Bread quality – & hence price – depends on variety of wheat grown in Canada
 - Warburtons set up contracts with farmers in W. Canada to grow varieties
 - Identity of the product needs to be preserved throughout supply chain
-

Response of Agricultural Co-ops

- Get bigger through mergers and acquisitions
 - E.g., Agricore, Agropur, Dairy Farmers of America, MD Foods/Arla, creation of super locals
 - Adopt new technology (e.g., inland terminals) and invest in R&D
 - Adopt new organizational forms
 - E.g., public trading of shares, New Generation Co-ops, international co-ops (Arla), joint ventures (CHS/Farmland/Land O'Lakes)
-

Adaptation Success of Agricultural Co-ops

- Adaptation success is very mixed
- Some successes – Agropur, Gay Lea Dairy, CHS Cooperatives, super locals
- Conversion of some New Generation Co-ops (Dakota Growers Pasta, ValAdCo, MCP)
- A number of high profile “failures” – Agricore, DairyWorld, Saskatchewan Wheat Pool, Farmland Industries, Agway, Tri-Valley Growers.

What Went Wrong?

- Decisions were being made in an environment in which the future was unknown
 - Attempt to expand too quickly – focus on major initiatives that were often inflexible; asset overpayment
 - Lack of management expertise
 - “There was a longstanding attitude at Agway, and predecessor organizations, that they could manage any type of business, even when other people could not.” Anderson and Henehan
 - Loss of member loyalty and market share
 - Poor oversight by the board
-

Retail Sector

- New competitors – e.g., Wal-Mart
 - New technologies – IT inventory management
 - Increased concentration
 - Changing consumer purchasing habits – desire for convenience, diversity and value; purchasing patterns are not stable
 - Increased rate of new product development
-

Response by Retail Co-ops

- Mergers by local retail co-ops
 - Maintenance of some autonomy at local level
 - Wholesalers withdrew from manufacturing and increased focus on activities with economies of scale (e.g., in-store design)
 - Revamping of stores, products and services
 - Investments in technologies – e.g., FCL's Efficient Consumer Response; MEC's on-line catalogue
 - Focus on issues of interest to members (e.g. MEC)
-

Adaptation Success of Retail Co-ops

- Retail co-ops have been largely successful in their adaptation
 - Continued growth in earnings by co-ops like FCL, Co-op Atlantic, and Artic Co-ops
 - Continued payment of patronage dividends to local retail co-ops
 - Updating of stores and retention of members and market share by local retails
-

Other Co-op Areas

- Some growth in worker co-ops, particularly in Quebec
 - Interest in co-ops in health area – e.g., home care
 - Some interest in organic production/marketing co-ops, often combined with consumer linkage
 - New emphasis on co-op development – federal government has announced a \$15 million program designed to support co-op development in Canada
 - Substantial efforts in other areas – e.g., Quebec
 - New taxation rules for co-ops
-

Lessons Learned

- Structure matters – Federated structures appear to have been more successful at adaptation than have centralized structures
 - Rapid growth not generally successful
 - Successful co-ops have either focused on a relatively narrow set of activities, or have been able to integrate a wider set of activities into a package of interest to their members
-

Lessons Learned

- Paying attention to member needs is critical
 - Differentiation in the market place is critical – e.g., as locally-owned, as a company concerned with the environment
 - Marrying this differentiation with being a co-op
 - Importance of governance – development of leaders and leaders' skills; ensuring that members feel they have some control
-

Questions?



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