



Leaders' Forum 2021

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COOPERATIVE BUSINESS NEW ZEALAND

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Welcome

Roz Henry
CEO
Cooperative Business New Zealand

Hon Grant Robertson MP

Member of Parliament for Wellington Central

- Deputy Prime Minister
- Minister of Finance
- Minister for Infrastructure
- Minister for Sport and Recreation
- Minister for Racing



New Zealand Co-op Economy Update



Wayne Munn

Partner, PwC



David Bridgman

Strategic Commercial
Advisor

New Zealand Co-operative Economy update

Presentation by **Wayne Munn & David Bridgman**
May 2021



Agenda

Section	Topic
1	The New Zealand Co-operative Economy 2021 update
2	Summary of results from the New Zealand Co-operative Economy 2021 update
3	Co-operative capital structure
4	Co-operative governance arrangements
5	Co-operative success & failure
6	Key challenges for Co-operatives
7	Key trends for Co-operatives
8	Discussion



**The New
Zealand Co-
operative
Economy 2021
update**

The New Zealand Co-operative Economy update

- The purpose of the survey is to illustrate the importance of co-operatives to the New Zealand economy and how this is changing over time.
- With the assistance of Co-op NZ, we reached out to 40 co-operatives to get:
 - Their key financial data (Revenue, Total Assets, Employees, and Members figures etc), and
 - Comment on the positive or negative trends and challenges that they have seen in their sector.
- For any information we couldn't access, we extracted data from the NZ Companies Office, through the co-operatives websites, or published Annual Reports.
- International statistics were sourced from the 'International Co-operative Alliance's 2020 World Co-operative' monitor update. We used similar methodology to this report to collect our information.
- A similar approach was used to compile the previous report in 2017 (2017 NZ Co-operative Economy report, published by Massey University and Auckland University). This report was based on 2015 data.



There are **331** Co-operatives, Mutuals, Societies and Credit Unions that operate in the New Zealand economy, a country of only 5 million people.

New Zealand Co-operatives employ more than **50,000** people.



The top 30 New Zealand Co-operatives generate approximately **18%** of New Zealand's Gross Domestic Product, making New Zealand one of the most co-operative economies in the world.

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**Summary of
results from the
New Zealand
Co-operative
Economy 2021
update**

The Co-operative economy overview

Top 30 2020 vs. 2015

Metric	2015	2020	Change (%)
Revenue (billions)	42,354	46,601	10.0%
Total Assets (billions)	33,478	39,443	17.8%
Employees	48,455	48,489	0.1%
Members	1,407,507	1,535,019	9.1%

Key observations

- Overall New Zealand's largest co-operatives have experienced strong revenue growth over the five year period (at 2.4% p.a.), backed by an increasing level of assets (at 4.2% p.a.).
- We note, the above growth in assets is inflated by the adoption of IFRS 16 (relating to the Accounting for Leases).
- Revenue growth has been achieved with limited FTE employment growth (reflecting potential productivity gains by co-operatives).
- Pleasingly, overall co-operative membership is up almost 10% over the last 5 years.
- The introduction of IFRS 16 (Accounting for Leases) and IFRS 15 (relating to Revenue Recognition) has had a material impact on the comparability of financial results between the two survey periods.

The full findings are currently under review. They will be made available in the coming weeks.

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**Co-operative
Capital Structure**

Co-operative Companies Act 1996

- **Purpose-** *“to reaffirm the value of the co-operative company as a means of facilitating its shareholders carrying on business on a **mutual basis**”*
- Key definitions:
 - Co-operative company
 - Co-operative activity
 - **Transacting shareholder**
- At least 60% of voting rights must be held by transacting shareholders
 - Companies Act 1993 also applies (with modification)
- Capital structure:
 - Shares may have nominal value
 - Voluntary or mandatory surrender
 - Surrender upon ceasing to be a transacting shareholder
 - Consideration payable upon surrender
 - Ability to hold up to 20% of own shares (with voting rights suspended)
- **Rebates:**
 - Paid in cash or shares in lieu
 - Calculated by reference to volume of value (revenue or profit) of transactions
- **Co-operative dairy companies** – special rules exist

Co-operative capital structure

- Capital serves as an **enabler** (a means to an end rather than an end itself)
- Less is generally better (from the standpoint of co-operative members)
- Capital structure depends on the type and nature of the co-operative, for example:
 - Primary sector producer
 - Retail buying group
 - Industry marketing organisation
 - Mutual society
- A diversity of structures exist, facilitated by Co-operative Companies Act working alongside Companies Act
- **How and when** is capital contributed
- **Return of capital** upon exit or over time
- Most co-operative capital must be accounted for as a **liability** on the balance sheet
- Restrictions on **tradeability**
- External capital and **hybrid structures**
- Role that **debt** plays in capital structure
 - Most co-operatives have had no difficulty accessing debt capital
 - Benefits and pitfalls exist

Co-operative capital structure (con't)

- Capital should **not be a barrier** to member admission nor have a negative impact on member behaviour
- Sources of **capital accumulation**:
 - Undistributed earnings
 - Capital gains
 - Revaluation reserves
 - Deferred rebates and dividends
- Do members participate in **capital appreciation** (share value growth)?
- What happens to capital if the co-operative **ceases to grow – redemption risk**?
- **Capital availability** is an increasingly important issue when co-operatives operate in capital-intensive industries
- **Rebates** should reward members who support their co-operative and encourage member participation
- Capital structure, including returns (rebates) needs to **align with particular business model**

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**Co-operative
Governance**

Co-operative governance

Governance

- Co-operative governance models are not always “**fit-for-purpose**”
- Historically most co-operatives have been governed solely by a **subset of their members**
- Does the board have all the **required skills, perspective and experience**?
- **Representation**-based board composition common
- Introduction of **external independent directors**
- Director **tenure**
- Director **independence and conflicts**
- **Training** for directors
- **Achieving diversity** can be a challenge

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**Co-operative
Success & Failure**

Co-operative success & failure

Success & failure - some key learnings

- **Clarity of purpose** - it is critical
- A **co-operative** exists to serve the **best interests of members**
- A **corporate** exists to **grow value for shareholders**
- Whereas a co-operative helps members **grow their own value**
- Co-operatives must constantly **evaluate their relevance to their members** as markets and business models evolve
- Capital structure, including rebates (and dividends) needs to align with the co-operative's business model and encourage the "right" member behaviours (loyalty, efficient trading, mutual benefit)
- Co-operatives are **ill-equipped to carry excessive debt**
- Governance can be susceptible to being **management capture**

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**Co-operative
Key Challenges**

8 Key Challenges

During the economic update a number of key challenges and opportunities were highlighted by participants, these are highlighted below.

Key challenges

1. Access to capital

- A number of co-operatives are struggling to gain access to capital to facilitate growth within a mature market.
- Co-operatives are continuing to develop a strong capital strategy whilst staying faithful to the traditional co-operative model.

2. Changing consumer trends

- Consumers are ordering / purchasing smaller quantities of goods more frequently - Co-operatives now need to ensure they implement the right pricing and incentive models.
- This purchasing trend is impacting distribution efficiencies as overall customer demand increases.

3. Supporting and managing member relationships

- Attracting new members is becoming difficult as consumers / members now have several options.
- A number of co-operatives are experiencing difficulties attracting new members and maintaining harmonious relationships with existing members.

8 key challenges (con't)

Key Challenges: Covid-19 related

4. Labour shortage

- With borders predominantly “closed” to additional labour, co-operatives are facing significant labour shortages during key seasons.
- Labour shortages are impacting a wide range of co-operative industries including retail and wholesale, horticulture (seasonal pickers) and agriculture (farm workers).

5. Reduced demand

- Some sectors are experiencing softening demand due to a slowing economy.

6. Supply chain and channel disruptions

- Port congestion is impacting imports and exports creating significant supply chain delays.

7. Business profitability

- Periodic lockdowns continue to impact business profitability, particularly in Auckland.

8. Increased costs

- Co-operatives are facing increasing costs with little to no expectations of being able to pass increasing costs on to members often due to long standing relationships with members.
- Increasing costs include meeting sustainability targets, reducing emissions and supply chain inefficiencies.

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**Co-operative
Key Opportunities**

4 key opportunities

Key trends - opportunities

1. Increased focus on Corporate Social Responsibility (CSR)

- With shifting consumer values accompanied by new regulations, co-operatives have incorporated a focus on CSR in their everyday operations.

2. Accelerate online strategy

- In the current economic environment, co-operatives are being forced to increase online business streams which has resulted in a significant lift in online services.
- Change in skill sets required in these businesses to reach customers.

3. Environment Social and Governance (ESG) targets

- Co-operatives and Mutuels have the opportunity to gain certification (for example B Corp certification) through achieving ESG targets as a result of various sustainability initiatives and programmes.

4. Supporting local

- Post Covid-19, New Zealand has witnessed an increased trend in consumers supporting locally owned businesses and locally produced products.

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Discussion

Thank you

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Panel: Co-ops and Capital



Sarah Minhinnick
NZX



Rob Hewett
Silver Fern Farms /
Farmlands



David Cunningham
The Co-operative Bank



Ross Verry
Syndex

Facilitator



Julia Jones
NZX

Option 1: Governance for Growth and ESG



Annabell Chartres
PwC



Janine Smith
The Boardroom Practice



Richard Westlake
Westlake Governance

Option 2: COVID-19 New Zealand Business Transformation



Greg Doone
Partner, PwC

Panel: Leading Sustainable Change



Professor Nicola Shadbolt
Climate Change Commissioner
and Chair, Plant & Food Research



Becky Lloyd
Toitū



Blake Holgate
Rabobank New Zealand



Katie Vickers
Farmlands

Facilitator



Annabell Chartres
PwC

Panel: Accelerating Business Trends Post-COVID



**Professor
Jonathan Elms**
Massey University



**Professor Gabriel
Eweje**
Massey University



**Associate Professor
Matt Roskruga**
Massey University

Facilitator



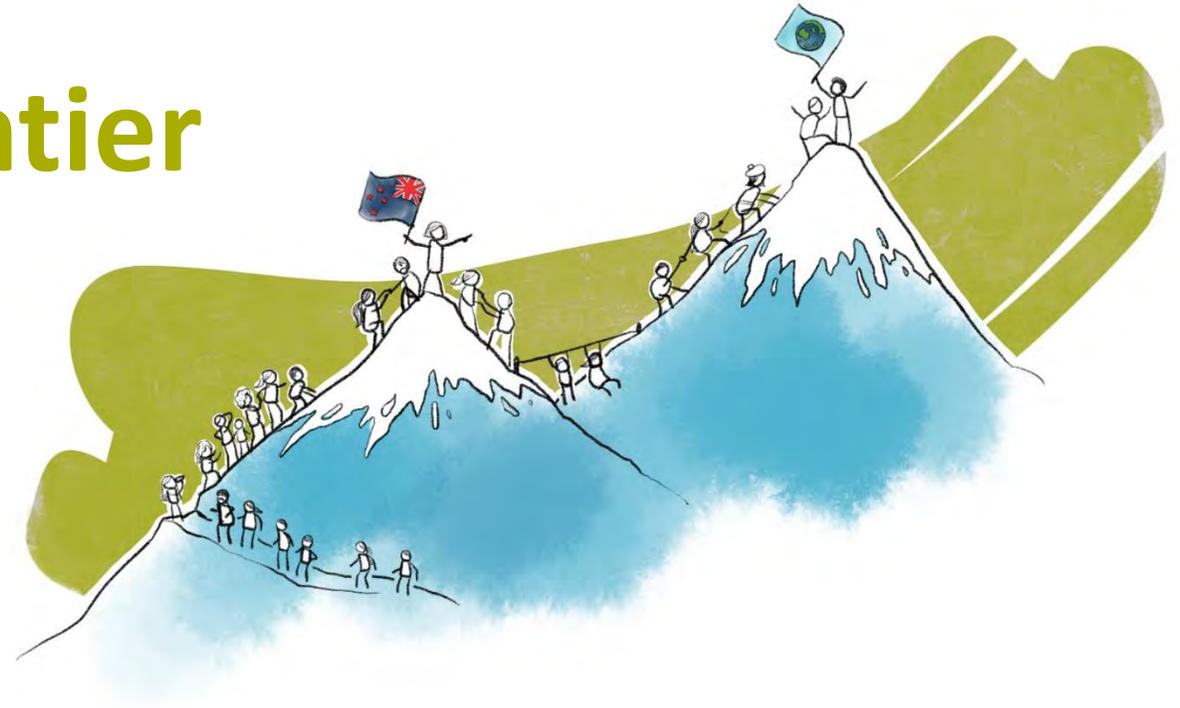
Dr Jeffrey Stangl
Massey University

Frontier Firms: An update from the New Zealand Productivity Commission

Dr Ganesh Nana, Chair, New
Zealand Productivity Commission



New Zealand firms: Reaching for the frontier



Dr Ganesh Nana

Chair, Productivity Commission Te Kōmihana Whai Hua o Aotearoa

Cooperative Business New Zealand Leaders' Forum

04 Haratua 2021



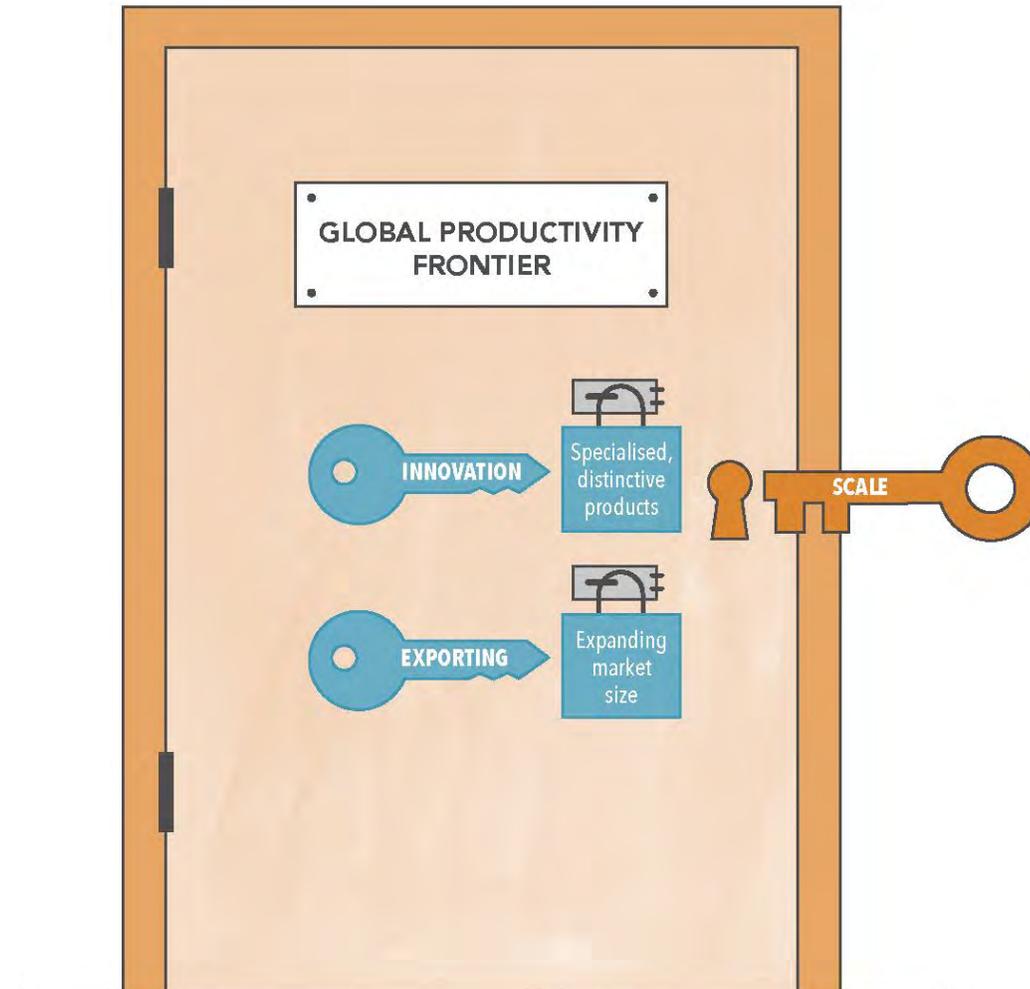
Purpose of the inquiry

“To identify policies and interventions that could maximise the performance and contribution to the economy of New Zealand’s frontier firms”

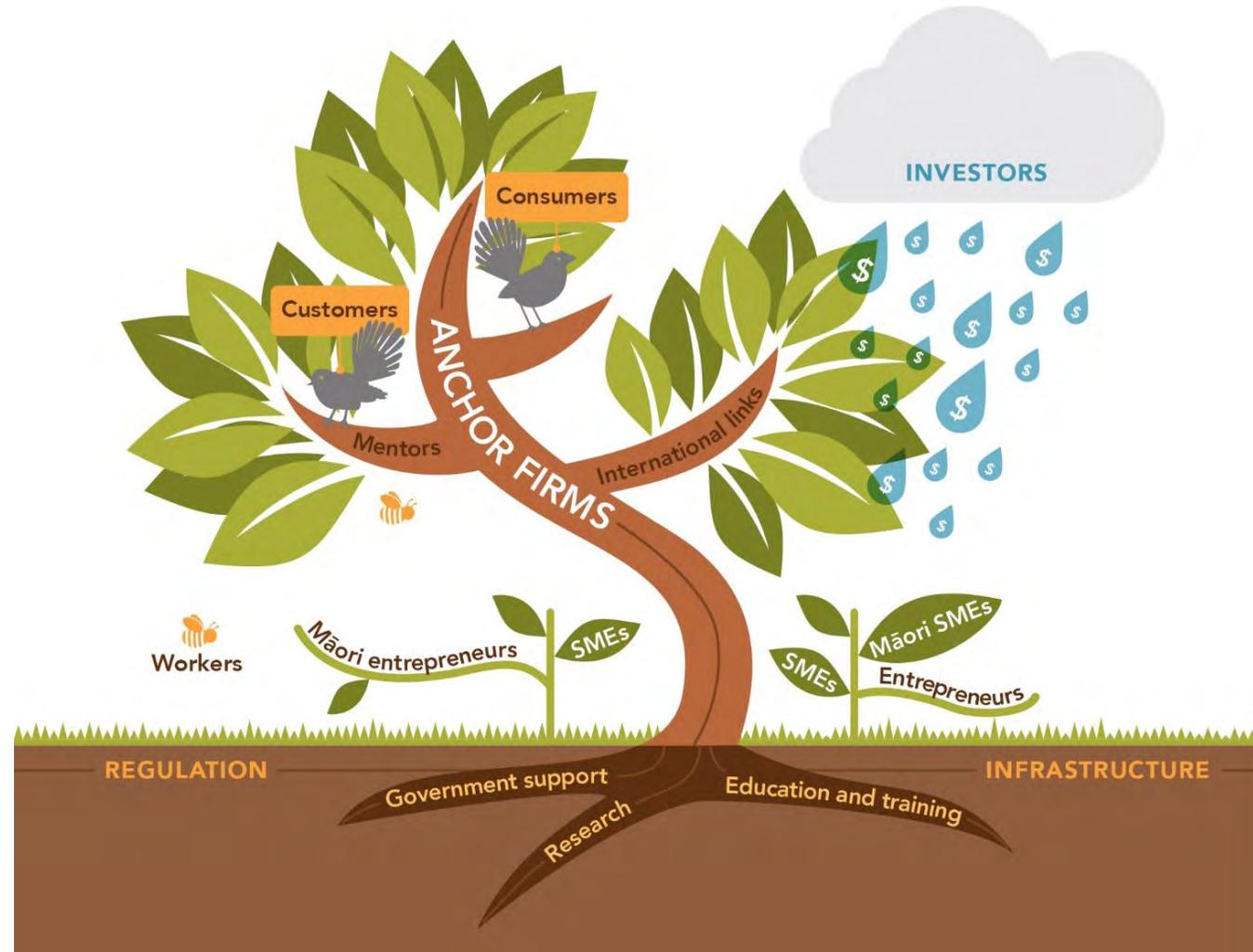
NZ frontier firms lag behind their peers



Specialised exports at scale are the way to overcome the hurdles of size and distance



Firms operate within an innovation ecosystem



Zespri plays the role of an anchor firm

- Provides sufficient scale for the industry to be at the global frontier
- Acts as “canopy cover” for the myriad of growers and supporting firms
- Strong track record of innovation – new-to-the-world techniques, strong branding based on quality, and products such as Zespri® SunGold
- Sophisticated licensing to protect its IP
- Diffuses best practices in growing and vine management across the industry – emphasising environmental and ethical best practices



Fonterra – NZ's largest company

- 20% of NZ's total exports in 2019
- 6th largest dairy company in the world, and the largest dairy exporter
- Yet, performance has varied and divergent views about it
- To become a fully frontier firm, it will need to:
 - transition more from volume to value; and
 - enhance its contribution as an anchor firm to the dairy innovation ecosystem
- Recent changes to DIRA risk harming competition and innovation by new dairy processors



The cooperative model offers significant benefits

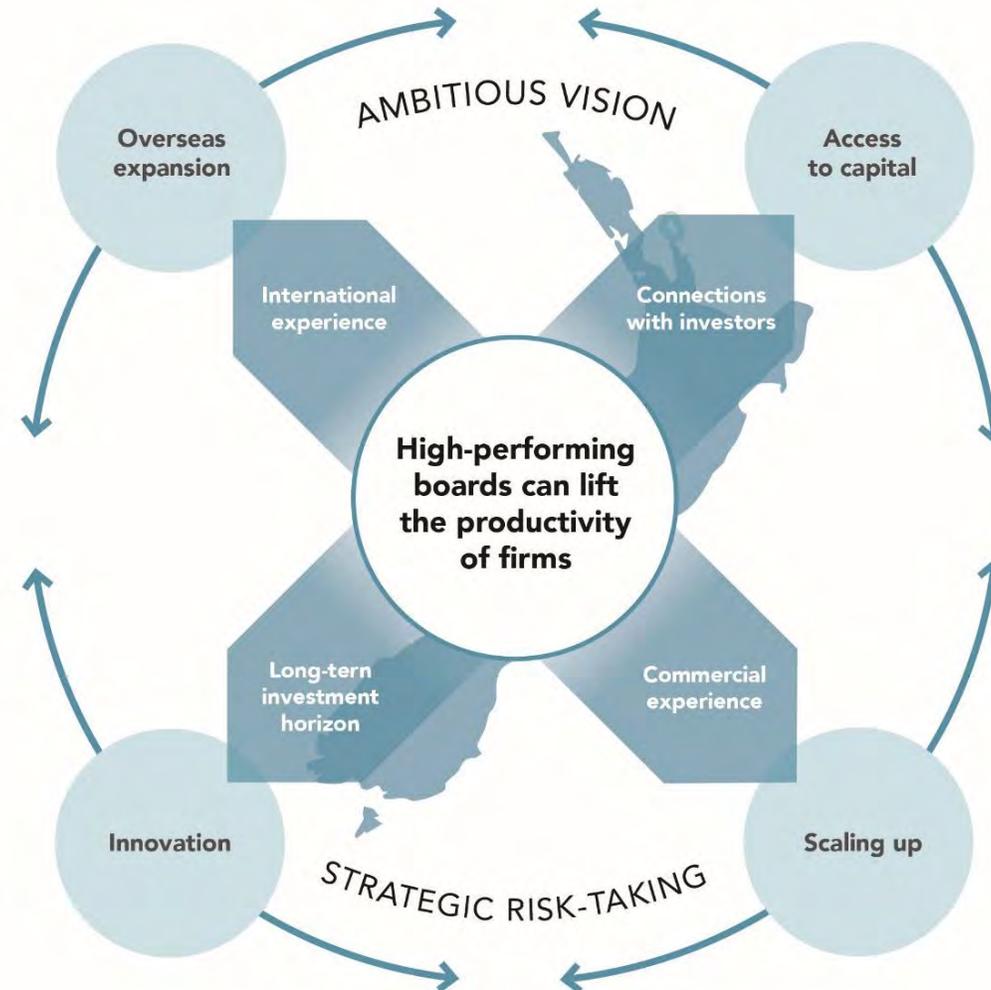
- These examples illustrate the benefits for firms, farmers and orchardists from working together to gain the scale needed for exporting
- Successful coops such as Zespri and Tatua are also highly innovative
- The flip-side of extensive cooperation is that the impacts of poor performance of the anchor firm can be widely felt



Māori values in business can foster innovation



Directors play an important role in supporting innovation and growth

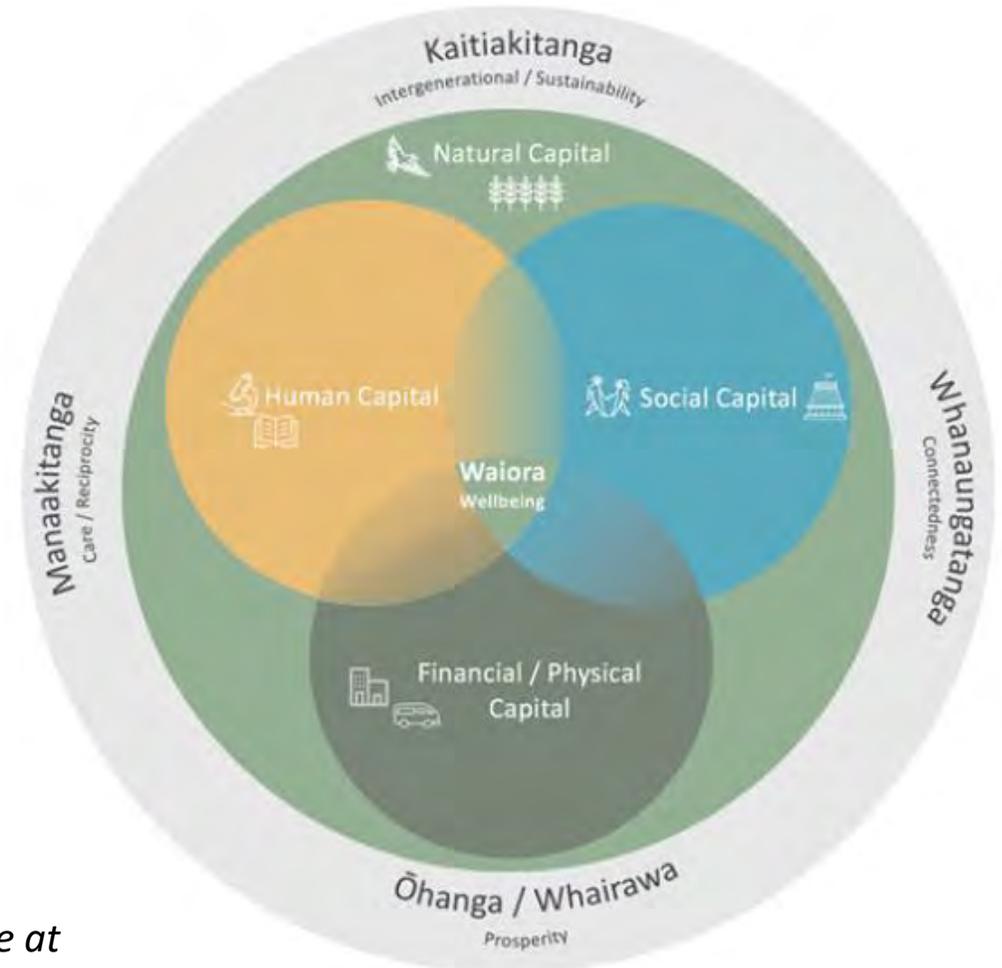


A large step-up from current arrangements is needed



He Ara Waiora

- Kaitiakitanga
 - stewardship, guardianship
- Manaakitanga
 - Care, reciprocity
- Ōhanga / Whairawa
 - prosperity
- Whanaungatanga
 - connections



Final inquiry report, all submissions, and associated research reports available at www.productivity.govt.nz/inquiries/frontier-firms

Keynote address: Co-ops, Capital and Climate

Fraser Whineray, COO, Fonterra





Dairy for life

Leaders' Forum 2021

Co-ops, Capital & Climate

Fraser Whineray

Tuesday 4th May 2021



Dairy for life







On-farm emissions make up 90% of Fonterra's total carbon footprint, with efficient manufacturing and distribution

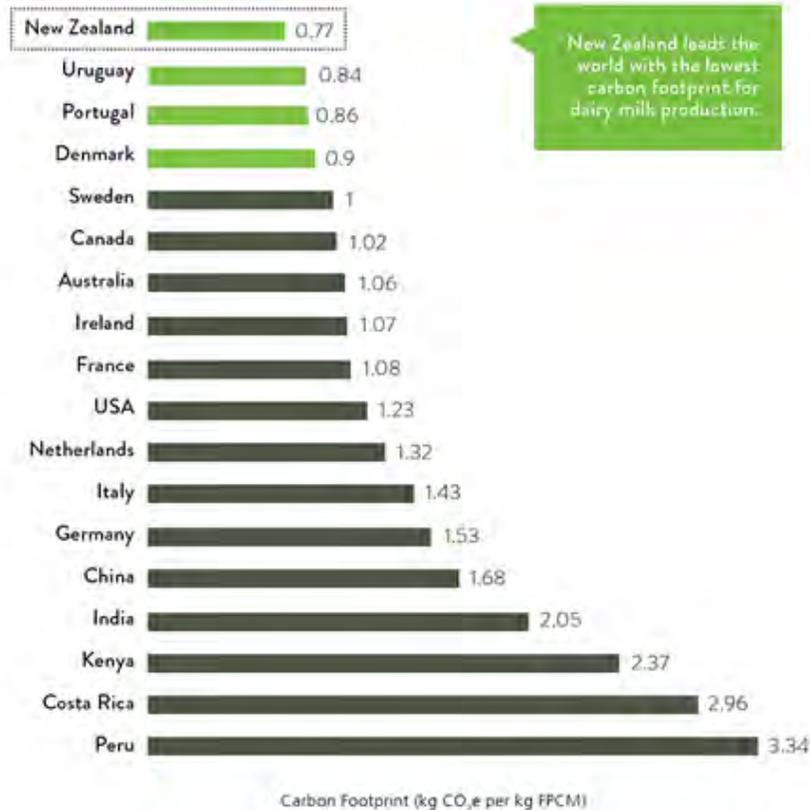
What makes up Fonterra's total emissions?



SOURCE:
Figure 1: Fonterra Sustainability Report 2020

New Zealand's on-farm carbon footprint is the lowest in the world for dairy milk production

Carbon footprint of milk production



New Zealand leads the world with the lowest carbon footprint for dairy milk production.

What makes New Zealand on-farm dairy emissions so efficient?



Pasture-based farming system



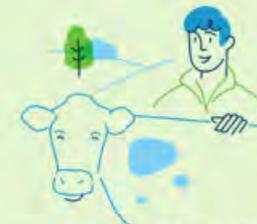
Long sunshine hours



Plentiful rainfall



Good grass and soil



Animal health and welfare



Renewable energy

SOURCE: Figure 1: DairyNZ sourced from <https://www.dairynz.co.nz/news/research-shows-nz-dairy-the-world-s-most-emissions-efficient/>

Figure 2: Fonterra New Zealand Figures from Ledgard, S.F. et al. 2020. Temporal, spatial, and management variability in the carbon footprint of New Zealand milk. *Journal of Dairy Science* Vol 3 Issue 1: 1031-1046. Regional Footprint Information provided on a regional basis using FAO 2018. FAO and GDP. 2018. Climate change and the global dairy cattle sector – The role of the dairy sector in a low-carbon future. <http://www.fao.org/3/CA2929EN/ca2929en.pdf>.



Dairy for life

