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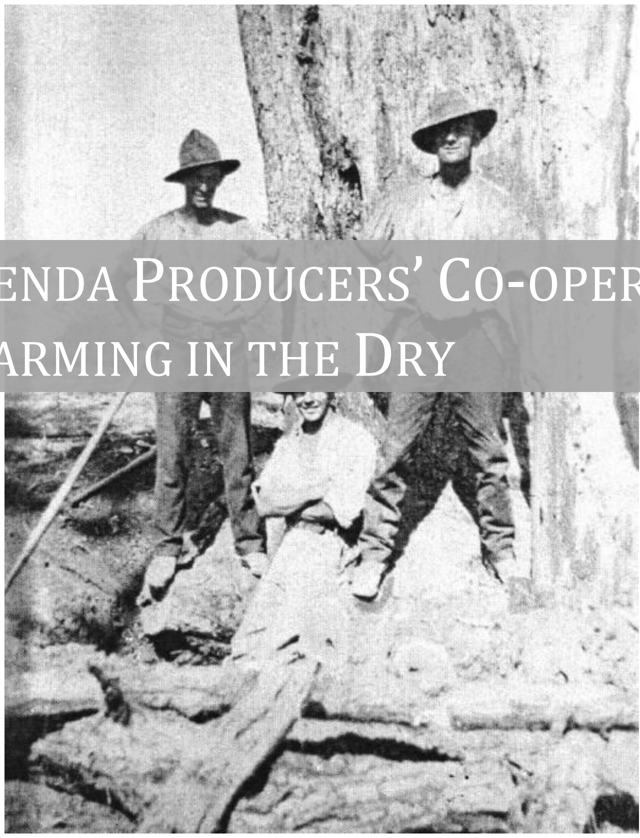
CASE STUDY

YENDA PRODUCERS' CO-OPERATIVE – FARMING IN THE DRY



Tim Mazzarol Co-operative Enterprise Research Unit, University of Western Australia.

Centre for Entrepreneurial Management and Innovation (CEMI) & Co-operative Enterprise Research Unit (CERU)
Phone: +618 6488-3981
Fax: +618 6488-1072
Email: tim.mazzarol@cemi.com.au

General Inquiries:
Email: tim.mazzarol@cemi.com.au

Website: www.cemi.com.au

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INTRODUCTION

The Yenda Producers' Co-operative Society Ltd (YPC) one of Australia's oldest continuously operated co-operatives and one of its largest by annual turnover. In 2018 the co-operative turned over around $83.3 million, employed over 100 full and part-time staff and had about 1,500 members. Operating as a group, the co-operative provides a range of professional services and agricultural supplies such as fertilisers, chemicals, biologicals, seeds, and hardware. It provides a valuable case study of the economic and social benefits that the co-operative and mutual enterprise business model can deliver to regional communities.

BACKGROUND AND EARLY HISTORY

The home of the YPC is the town of Yenda, which is in the Riverina district of New South Wales (NSW) approximately 550 kilometres west of Sydney. This lies within the traditional lands of the Wiradjuri Aboriginal people and falls within the Murrumbidgee River irrigation area. It is a hot, dry semi-arid zone, which has low rainfall and is prone to drought and occasional flooding. What allows Yenda and the adjacent towns in the area to sustain relatively large populations and high levels of agriculture, horticulture, and viticulture, is the ability to draw water from the Murrumbidgee River system.

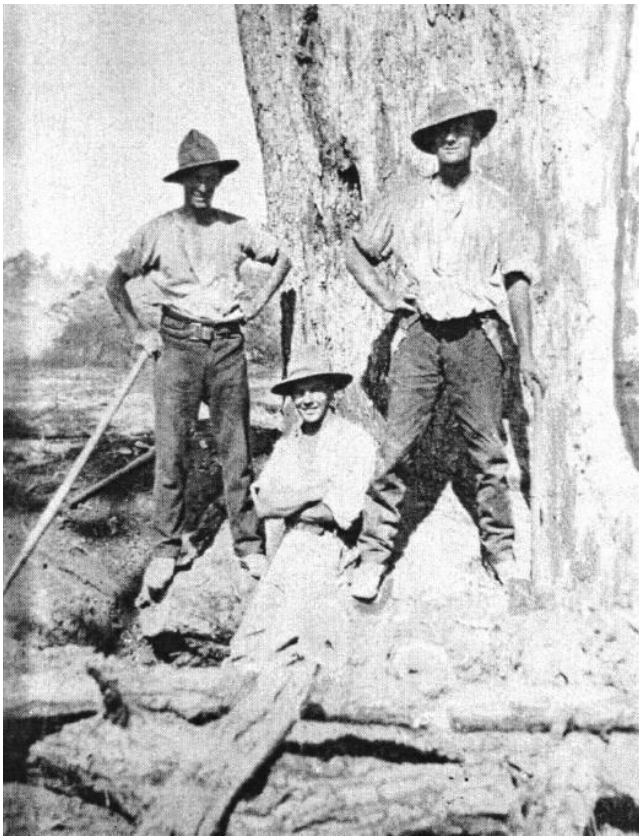
European settlement commenced in the 1840s with a small number of squatters seeking to establish pastoral stations on the abundant grasslands. However, it wasn't until the 1880s that irrigation systems, drawing water from the Murrumbidgee, were first constructed in the district. This early irrigation work was then accelerated between 1904 and 1920 when the NSW state government made the decision to invest in a major inland irrigation system, which substantially transformed the area (Gribble, 2015). The development of the irrigation infrastructure was initially undertaken by the Murrumbidgee Irrigation Trust (established 1910), and the construction of the irrigation system, and associated towns commenced from 1911, with the purchase or resumption of land (SRA, 2019a).

The following year the *Murrumbidgee Irrigation Act, 1910* was repealed and superseded by the *Irrigation Act, 1912*, which saw the Trust replaced by a Commissioner for Water Conservation and Irrigation. From 1913 and throughout the course of the First World War (1914-1918), the Commissioner promoted settlement within the irrigation areas, allocating lands, establishing experimental agricultural research stations, and support programs for mixed farming, dairying, pig production and horticulture (e.g., fruits, berries, and tobacco) (SRA, 2019b). In 1916 the Water Conservation and Irrigation Commission was established.

FOUNDATION OF YENDA AND THE EMERGENCE OF THE CO-OPERATIVE

The town of Yenda was officially founded in 1916, although it grew slowly until the end of the First World War. From 1919 the town and surrounding areas experienced growth with the influx of returned service personnel who were provided with government assistance under the Returned Soldiers' Settlement scheme. Faced with increasing costs and debt, the Water

Conservation, and Irrigation Commission, actively promoted land settlement into the Riverina to these returned servicemen. However, allotments of land within the Yenda district were typically small (e.g., 4 to 14 hectares), and only suitable for small scale dairying and intensive horticulture. Many soldier settlers were undercapitalised, lacked the skills needed for successful farming, and faced problems such as poor soils and drainage. As a result, most struggled and many failed (Gribble, 2015).



Soldier Settlers, Yenda 1919 (source: The Area News)

According to YPC Chairman Nayce Dalton and Managing Director (MD) Peter Calabria, the plight of these early pioneers was made more difficult due to the challenging semi-arid climate, the significant distance to major markets, inadequate transport infrastructure, and poor scientific and agronomic advice:

> *"Initially the government told the farmers to get into dairying because it had worked in other areas, but the trouble was that with fresh milk so far from the markets, all that fresh milk ended up being fed to pigs. There were a lot of other failures here in a lot of the crops they tried to grow because the people who were advising them at the time didn't understand that it was a semi-arid or near desert type place here. Without the irrigation water you just couldn't do it (Dalton, 2019)."*

Throughout the early 1920s the community of Yenda struggled to make a living, forming several co-operatives to assist them with the processing and marketing of cash crops. These included the Yenda Tobacco Curing Society Ltd. (est. 1921), and a branch of the Griffith Co-operative Society, which had opened a grocery store at least one year before that. The tobacco co-operative was renamed Yenda Producers Limited in 1922. Additional firms were established such as the Yenda Settlers Ltd. (1922), Yenda Hay & Grain Growers Co-operative (est. 1923) and Yenda Vine Growers Association (est. 1924).

However, by 1924 the two most successful of these businesses were the Yenda Producers Ltd, and the Yenda Settlers Ltd. The first of these, which had taken over the tobacco curing co-operative after it suffered a catastrophic barn fire, was not a co-operative, but a company registered with the *Companies Act, 1899*. The latter, also not a co-operative, had grown out of the branch of the Griffith Co-operative grocery store. Both were selling similar products and there was a call for the two to be merged. However, Yenda Producers Ltd was viewed by many as too profit oriented and concerned only with the benefits it could offer to its shareholders who were mostly farmers. By contrast Yenda Settlers Ltd was seen as focused more on what was in the best interests of the wider community.

Despite these issues, a series of extraordinary and special general meetings were held during 1925 to discuss the potential for a merger. However, the shareholders of Yenda Settlers Ltd remained opposed until in December 1925 a fire destroyed the Yenda Settlers' building, and this is likely to have tipped the balance in favour of amalgamation, which was finalised in 1926. There was also state government support and encouragement to soldier settlers to join co-operatives, and it may explain why the newly merged entity was registered with the *Co-operation, Community Settlement & Credit Act*, *1923* rather than the *Companies Act* (Gribble, 2015).

As explained by Dalton and Calabria, the co-operative's foundation was driven by the combination of government investment in irrigation and the soldier settlements scheme, and the community's desire to get a fair deal for sale of their produce and purchase of their goods and services:

> "Probably the two drivers were the community's desire for a better deal, so the community got together to *form the co-ops to self-service and on the other side of the coin, many of the existing suppliers and buyers were probably ratbags who were ripping them off. So, the co-operatives were a way of protecting themselves, with one on the supply side and the other on their product sales side (Dalton, 2019)."*
>
> *"Yes, you're right, the two co-ops were formed as Nayce says for two key reasons, one was so that they could buy more competitively, and not be dictated to. Also, because we were so far from the market, when back then around 100 years ago, transport was a big issue, there was the need to bulk market their product so that they could get a decent return for it and thereby help them to survive (Calabria, 2019)."*

Steady growth through depression, war and peace

Throughout late 1920s and into the 1930s the Yenda Producers Co-operative Society Ltd and its members battled fires, floods, drought, and the financial distress caused by the Great Depression. However, progress was made, and the co-operative expanded into the packing and export of fresh and dried fruits under the "Wee Juggler" brand. The co-operative's members were from a range of producer backgrounds, which included small scale horticulturalists growing fruits and vegetables, through to large-scale rice and mixed farmers. The latter were fewer in number but spent more with the co-operative buying such things as fertiliser, fuels, oils, and machinery parts.

Following the Second World War (1939-1945), the co-operative saw its fortunes improve along with the growing prosperity of its members. Large-scale farmers were investing in fat lambs and making good profits. Small-scale horticultural producers were growing stone fruits, (e.g., apricots, peaches, pears, figs, quinces), citrus, vegetables (e.g., tomatoes, beans), nuts and berries. There was also a growth in grape production and the concurrent production of fortified wines. This was facilitated by the arrival of many immigrants from Europe who brought with them viticulture and wine making skills, as well as a market for such product. The co-operative's retail operations expanded during the 1960s with the need to invest in upgraded facilities to address storage for fertilisers, fuels, and oils (Gribble, 2015).

Yenda Producers' Co-operative Store 1940s (Source: YPC, 2019)

These benefits of the co-operative were highlighted by Calabria and Dalton when reviewing the evolution of Yenda Producers:

> *"Back in those days there wasn't the infrastructure and the logistics available to the producers. So, by setting up the co-op they were essentially setting up their own infrastructure and logistics. This was the same for marketing. The buyers who were there at the time were going to rip them off, so the co-op could be there to help them get their fruit to market, provide packaging and logistics for them (Dalton, 2019)."*

"Yes, in the early years there were a lot of individual merchants who sprung up, a bit like the gold rushes, where someone would set up a bit of a shingle and pretty much sell anything and everything. And those people tended to have control of those areas and they made all the money. So, I think the founders saw the co-op as a way to not be at the whim of the only operator in town (Calabria, 2019)."

Further expansion took place in the 1960s, 1970s and 1980s with a shift into bulk handling and storage of grains and some fruits (e.g., prunes). Mechanisation from harvesting to storage, processing and packing increased productivity and saw the co-operative investing in a significant amount of machinery, transportation, and bulk storage facilities. For example, a permanent office was built in 1963, with new fertiliser storage facilities constructed in 1966. However, the 1980s was a period of strong growth for YPC. Following the sale of land assets during the 1970s, further land was leased in 1982 and bulk fertiliser storage sheds built in 1984, with a branch store opened in the nearby town of Leeton in 1988. This expansion continued during the 1990s with more facilities upgrades as increased regulation demanded new buildings to house chemicals and other potentially dangerous materials. The co-operative operated branch stores in several towns including Griffith (Gribble, 2015).

THE FORMATION OF THE YENDA GROUP

In 1998 the YPC acquired a locally-owned stock and station agency Spencer and Bennet (S&B). The latter, founded in 1980, had similar client base to the co-operative's membership and shared common values and mutually beneficial synergies in its services. To accommodate this acquisition, the co-operative created a new, solely owned entity Spencer & Bennet Yenda Producers Pty Ltd. Operating across the region, the new entity is based in Griffith and offers real estate agency, insurance broking and agency in livestock buying and selling. It also provides support for members in water trading, livestock production, motor vehicle and general insurance (YPC, 2019). As Calabria, explained the acquisition was because of discussions between the co-operative and the S&B owners:

"If you go back to about 1997-1998, we were involved in discussions with the Spencer & Bennett owners, and the two partners really didn't have a succession plan. We were building new offices out near the sale yards in Griffith, we approached them and asked if they would like to rent some office space, and they came back and said, 'look instead of doing that are you interested in buying us?' So, we bought them 100%, and while they sold out fully, they agreed to work with us for the next 5 to 7 years and one stayed on for 12 years (Calabria, 2019)."

The first decade of the twenty-first century was marked by one of the most severe and protracted droughts since the "Federation Drought" of 1900-1901. This impacted the ability of the co-operative's members to grow their crops and by 2002 rice production had fallen by 50% and was reduced to virtually nothing by 2008. Compounding this problem was the decision by the NSW government to "separate" the irrigation water from the land, essentially pooling the ownership of water rights into a water market. With an oversupply of some crops (e.g., grapes) and low prices caused by deregulation of horticultural production, some larger irrigators chose to sell their water allocations for a profit rather than use it to grow crops (Gribble, 2015).

According to Dalton and Calabria, the semi-arid conditions that the co-operative's members must operate their farms in remains the critical strategic challenge that has faced Yenda Producers throughout its history:

> *"Yes, this issue continuously raises its head, particularly when we go into dry periods. On the back of climate change, which I don't think anyone is seriously arguing that the climate is not changing, with more severe dry and wet, with more unpredictability of weather now common."*

It was this combination of drought and low water allocation that resulted in the co-operative adding a second business to its group. This took the form of a joint-venture with Riverina Water Engineering (RWE) led by Gerard Ormesher. Based in Griffith, the RWE Yenda Producers Irrigation business commenced trading in November 2004. Originally RWE was run by two partners who rented office space from YPC. However, one of the partners decided to retire and asked the other to buy their share of the business. At this point Gerard considered an offer to align himself with the co-operative, and the co-operative agreed to partner with him and purchase the shares of the departing partner. This took place during 2006 and was a relatively low-cost, low-risk investment.

The benefits for the RWE owner were that the co-operative took over all the administrative support for the business, and over the years has grown to a turnover of more than $10 million and employs around 25 full time and casual staff. Initially offering irrigation system designs and consultancy services, RWE grew into a comprehensive service provider offering design, installation, and maintenance of irrigation systems for a range of customers including rural, domestic and government sectors. In addition, it also provides a retail outlet for irrigation products and emergency break-down services for customers.

In 2015 the co-operative formed another joint venture between itself, as the majority shareholder, grain trader Origin Grain, and Luke Mancini, a shareholder of the co-operative, and former employee of Origin Grain. The main purpose of YPG is to help its members secure access to niche grain markets (YPC, 2019). The motivation for entering this business was the recognition by the YPC board that there were good synergies between their existing grain operations and those of the grain trader:

> *"At that time, we'd been involved in grain for about 10 years, but we really didn't have strong presence in grain. Our focus was on grain transportation and delivery, farm to silo, but nothing else. It probably filled in a bit of the canvas to say, well if we can close a bit more of the loop and offer additional services to the members this would be worthwhile. So, we proposed to the board the plan to start a joint venture to operate a grain trading business. Also, about that same time, one of our local competitors, came up for sale, and they had grain storage silos and a fuel storage depot. This included existing contracts for the supply of malt barley and corn. These events essentially aligned and that is how that business took off (Calabria, 2019)."*

Although these subsidiary businesses are not full members of the co-operative, it is expected that they will adopt procedures and a culture that is congruent with the values of the YPC. The co-operative's MD oversees the management of these subsidiary firms:

> *"All those businesses adopt the policies, procedures, and culture of the co-op. So, the deal is that we filter down all our policies, procedures, and expectations. So, they've got to act like our co-op employees do, and that is sort of a given (Calabria, 2019)."*

According to Dalton, if these subsidiary firms were to grow significantly over time, the co-operative would most likely seek to put some of its directors onto the boards of these subordinate firms. As explained by Calabria, these subsidiary firms are run by their own management and directors but must meet certain profitability expectations. The YPC holds at least a 50% share in the equity of these firms, and their profits are included in the co-operative's annual financial statements.

Governance, Management, and Membership

The history of the Yenda Producers' Co-operative highlights the success with which the business adapted to changing political, economic, social, and environmental forces that have shaped its region and community since its foundation in the 1920s. However, the ability of the co-operative to successfully navigate these challenges can be attributed to the governance, management, and member engagement that the co-operative has demonstrated throughout its history. These issues are discussed in the following sub-sections.

The importance of good governance, management and member engagement

Looking back at the evolution of the YPC, Dalton and Calabria consider that what have been the key defining elements are the quality of governance and management:

"Management and governance are the two factors that have given it the rollercoaster ride since the 1920s. When there has been good management and good governance things have gone alright, but if you get a period of bad governance, you also get bad management. Yet that seems to be something that goes back to the 1950s, and there are still fellas today who will tell you something that happened in the 1960s, times when things were very close to failure (Dalton, 2019)."

"Yes, it definitely has. During that period, that is the 1950s era, there were a number of unscrupulous people within the Yenda community and there were a number of fires that were essentially insurance claims. These almost meant that the business certainly wouldn't have survived. However, they found some funds, restructured themselves and maybe kept some good governance for a while, but then someone jumped in and tried to take an advantage, and as Nayce said, the co-op has nearly failed a number of times on different occasions for different reasons. In fact, there was a period when insurance companies would not offer any insurance for buildings in the Yenda area due to what were called 'Saturday night fires' (Calabria, 2019)."

According to Dalton, the strong growth that YPC experienced during the late 1980s and through the 1990s was due to a "fairly aggressive" CEO who was willing to take on a degree of risk, and with the assistance of some good seasons, helped to strengthen the business. However, during that period, the co-operative also went through a transformation, from a reseller of products to a collaborative partner to its members. This involved going out and working directly with the members through the provision of professional advice across the businesses that form the YPC Group.

"The biggest change in that period from the late 1980s was from being a purely reseller to actually going out on farm and becoming more of a partner with farmers. To offer more services, like agronomy services, trucking services, spreading services, and that kind of thing (Dalton, 2019)."

This shift in the YPC's business model not only changed its structure, but gave its members and the wider community a much greater exposure to the co-operative's services and benefits:

"They didn't only see it at the shopfront, it was in their paddock as well (Dalton, 2019)."

This physical "on farm" presence of the co-operative (e.g., having YPC branded trucks in the paddock), assisted with the process of enhancing member engagement. It "helped to give a sense of ownership to the co-op" within the minds of its members (Dalton, 2019).

Calabria also highlighted the importance of good financial controls within the co-operative. Having joined YPC in 1995 and spending seven years as Company Secretary before taking on the CEO role, he had been closely involved in the things that had shaped the co-operative's recent history. He recalled the incompleteness of the recording process of all transactions needed addressing. All payments needed to be recorded and accountable. He explained:

> *"I told the CEO at the time that I wasn't going to work that way and sign off on any unaccountable transactions... That actually added cost to the business in some areas, because it meant that we had to start paying through the books. (Calabria, 2019)."*

He noted that many employees were doing a lot of overtime, and this needed fixing. In addition, there needed to be improvements in the work health and safety (WHS) culture operating within the business. While WHS regulations were not as strict as they are now, there were too many cases of drivers doing long shifts without sufficient rest. Overall, he felt that the co-operative had not really developed its formal systems of governance, compliance and WHS procedures, evolving as it had from an earlier time and a busy but mostly informal management culture. Such formality in the way the co-operative was managed were necessary, but they did add costs, although this is a necessary part of business growth.

From the board viewpoint, Chairman Dalton expressed the view that the board of the YPC in those years were long standing and due to the relative success of the CEO, the board tended not to question the executive. He described the board from that period as a "tick and flick board". It didn't challenge the CEO and was heavily dependent on the executive. This view was supported by Calabria, who was the Company Secretary at the time. He observed that the board was essentially run by the CEO rather than oversighting the executive.

Since that time the YPC has significantly improved its approach to governance and compliance. Under its constitution it doesn't have independent directors on the board, but it has widened the gender balance on the board by the appointment of female directors. In addition, the co-operative is taking steps to widen the diversity of the board through the appointment of younger directors (e.g., aged under 40 years). Given the rather diverse nature of the members' farming businesses, the co-operative had traditionally sought to get representation on the board from different types of producers, although this was now changing:

> *"It used to be very much commodity-based with directors from areas such as wheat, sheep, prunes, grapes, etc. However, now we're looking more at skills (Dalton, 2019)."*

In addition, the co-operative was now requiring its directors to undertake the Australian Institute of Company Directors (AICD) courses within 12 months of their appointment. Now that most of the board has completed at least a short program via AICD, they have, according to Dalton, begun to see their roles differently:

"So, we've got everyone through at least the three-day course with the AICD and it has made a real difference. They now don't see themselves as business advisors anymore (Dalton, 2019)."

Yenda Producers Co-operative 2013 (source: NSW Business Chamber)

The approach to selection of directors within YPC has primarily been on the replacement of directors leaving and creating a casual vacancy. According to Calabria, there has not been a contested election for a board position in the last 40 years. As Dalton explained, whenever there is a vacancy, the board is asked to identify potential replacements from amongst the members. Then a short list is drawn up and the potential applicants are approached to see if they are interested. While it was acknowledged that such a selection process is not "strictly democratic" it did allow for the right people to be appointed as directors and this has assisted in maintaining the overall stability of the board. According to Calabria:

"So, you do get stability, and the experience we've found is that when you bring someone onto the board of a co-operative, most directors need at least three years there before they can become really comfortable and able to contribute fully. Some might do it more quickly, for example, within 12 to 18 months, but others will take a bit longer (Calabria, 2019)."

Of importance was the need for the directors to switch their thinking from that of their own farm and its needs, to the wider perspective of what was in the best interests of the co-operative and its total membership. This was often something that took new directors time to fully grasp. Despite this approach to board selection, YPC still advertises any board positions each year. This is done to allow for anyone who may feel unhappy with the direction being taken by the co-operative to put either themselves or someone else up for election.

This typically involves advertising all board vacancies just prior to the general meetings to give members the opportunity to either run or nominate someone for the role. However, there have been relatively few examples of the members wanting to challenge any new board nominations or appointments. The co-operative's constitution allows for anyone who is dissatisfied with the board recommendations to put up an alternative candidate.

MANAGING MEMBER DIVERSITY

As noted earlier, from its foundation YPC has had a relatively diverse membership base, which reflects the varied agricultural, horticultural, and pastoral business activities that take place within the co-operative's area of operation. This diversity of membership has been a challenge for the co-operative to deal with as reflected in its history. The membership base includes large corporate farming businesses that turnover more than $100 million per year, down to individual householders who shop at the co-operative's retail stores and cultivate their local vegetable gardens. Amongst the producer members are broadacre wheat-sheep mixed farmers and large-scale irrigation farms, plus small-scale high-intensity horticulturalists.

The management of such diversity in the membership base is a challenge for most co-operatives and this is the case for YPC. A point noted by Calabria and Dalton:

> *"I think we've found this challenge in regard to working out where we should spend money and where we shouldn't. For example, at times we've looked at decisions and felt that while only 50 farmers are going to benefit from this, we can't justify the $2 million investment into something like a fruit dehydrator (Dalton, 2019)."*
>
> *"So, we are very mindful of the need to offer everyone something, so in addition to having agronomists on the ground, we've also got horticulturalists who go out and advise into cherry crops, garlic crops or grapes and nuts. This might also include animal health advisory, irrigation, corn, cotton, or rice production although this can sometimes spread our resources very thin. In fact, we talked about this the other day, saying that we're a bit of a jack of all trades, or the GP in the country town rather than a specialist (Calabria, 2019)."*

It was also noted that the YPC covered a geographic area of around 100 km radius from the town of Yenda. This, and the distribution of its facilities and offices in adjacent towns such as Griffith and Leeton, meant that the co-operative could not become too focused on a single town or community group. Although the original boards were predominately from the town of Yenda, over the years the co-operative tried to ensure that it had a good representation from all parts of its membership.

Out of the total membership base of 1,500, there are approximately 300 broad acre irrigation farmers, 50 dryland farmers, 450 horticultural producers, plus another 700 members that comprise businesses, residential town-based residents, and small-scale hobby farmers. Of these members, the co-operative generates the most business from the large producers, such as broad acre irrigators, dryland farmers and the larger horticulturalists. A small proportion of the members, usually the largest corporate producers, would generate most of the income, following the 80/20 rule.

This level of diversity requires the co-operative to invest time in building and maintaining positive relationships with all its members, in particular such large patrons. Where the larger members, corporate or not, are locally operated, with senior managers who have lived in the community for long time, the co-operative's board and executive management feel that they can maintain a good working relationship and keep them loyal. However, as corporate entities, the managers of these member organisations must justify their decision to give their patronage to the co-operative. A major incentive in this regard are the rebates and dividends that the YPC offers.

> *"Because they're corporate, they have to justify to the blokes above them and their board because they're shopping with the co-op. The numbers have got to stack up. So, for us, and for them, part of the drivers are the rebates and the dividends. And for most of these bigger corporates we're pretty skinny on the margins, and we've got to be if we want to keep them (Calabria, 2019)."*

Even though the profit margins generated by some of these corporate trades are modest, the overall through put of products such as chemicals and fertilisers is such that it helps to deliver better pricing for all members regardless of size. This pricing structure is important because the co-operative does distribute profits and all members are restricted to a total of 35,000 x $1 shares. Traditionally, Dividends have been paid at a rate of 5% for any share capital, and rebates are paid at a rate of 2% per annum. Both dividends and rebates are paid to members as cash, for members who have reached the 35,000-share limit. In relation to member value, this approach to capital structure means that most of the value a member will derive from the co-operative is through patronage.

The board of the YPC had not given much consideration to the use of Co-operative Capital Units (CCUs), as allowed for within the *Co-operatives National Law, 2012*. According to Dalton there were some concerns over the use of such capital instruments. The risk of having non-members become shareholders and the risk that this creates conflicting interests and potential divisions between the ordinary member and the CCU shareholders if they are non-members. The CCU was viewed as a "last option" and if the co-operative needed to raise capital, it would be more likely to turn to its members and fund any growth modestly and sustainably, rather than risk "putting the house up".

BUILDING AND COMMUNICATING THE MEMBER VALUE PROPOSITION

For the board and executive management of YPC, a critical issue is the need to get all the co-operative's staff to fully understand the member value proposition (MVP) that the business can offer to members. After that is the need to get the staff to be able to communicate this to the membership and the wider community. The YPC is active in supporting a lot of community events and organisations:

"As a co-op we do support a lot of community events and organisations. We do try to be out in the community. Although we could probably do this better, by which I mean that when we are doing this, we let everyone know, without beating our chests, that we are doing it, and that will help to strengthen the overall sense of belonging from our members (Calabria, 2019)."

Another key point of difference that YPC could identify for its MVP is that it is locally owned and managed business that has been a long-term economic and social contributor to the region. According to Dalton this is of particular importance given the otherwise heavy concentration of ownership within the agribusiness services sector into the hands of a few large corporates:

"There is a huge concentration of ownership in our area of agricultural reselling following the mergers of several large companies. So, this is a point of difference that we can communicate, namely that we are a local and locally owned business, and not one of the big corporates (Dalton, 2019)."

The board had recently met to discuss its future strategy. One area that had emerged was the need to start being more proactive in communicating its co-operative advantage and getting the community to understand the role and value of the co-operative. This included a more systematic and broad range survey of members to get more reliable feedback. To date the YPC had not engaged in regular member surveys, although it does speak to members on a one-to-one basis as required. A lot of the member-engagement communication has been delegated to branch store managers and agricultural service consultants who deal daily with members as their customer and clients.

Attendance at annual general meetings (AGMs) is typically low for the YPC. This is viewed as a "typical rural thing" and that if the AGM is heavily attended things are usually not going well! However, there was a recognition that the co-operative needed to do more the get out into the community, within the various towns within its operating area, and run low key but focused events to celebrate the success of its members, and to also acknowledge the good work if its staff within their member engagement.

Managing and retaining the staff of the co-operative was seen as a key part of the YPC's ability to continue delivering value to members. Given the relative isolation of the co-operative and its community, finding good employees was difficult. This included good truck drivers through to professional agronomists. The co-operative was also facing competition from large corporate firms who were offering much higher wages to attract even some of the relatively junior staff when the labour market became tight.

The YPC is keen to grow and diversify its membership and expand its market share. This is seen as essential given the ongoing rationalisation and concentration of power into a small number of large corporate groups that the co-operative competes with. However, before this can be done, the YPC needs to better understand the needs of its members. Of particular concern, is the impact of water ownership rights within the current irrigation system that feeds the foundations of so many of its members' businesses. This is one of the most strategic issues facing the co-operative and relates to the management of the Murray-Darling River basin within which the Murrumbidgee River is a major waterway.

THE MURRAY-DARLING BASIN WATER PLAN

As noted above, the period from late-1996 to mid-2010 saw much of southern and eastern Australia impacted by long periods of dry or low rainfall known as the Millennium Drought, which "severely impacted the Murray-Darling Basin and virtually all of the southern cropping zones" (BOM, 2015). This created significant problems for the irrigators along the Murrumbidgee River, which lies within the large Murray-Darling River catchment. Water allocations from the Murrumbidgee Irrigation Ltd to the irrigators were frequently insufficient or arrived too late in the season to offer any benefit to the farmers' crops (Gribble, 2015).

In response to this drought, and the competing demands for water from irrigators, town domestic consumers, graziers, processors and the natural environment, a coordinated plan was developed between NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory (ACT). Known as the Murray-Darling Basin Plan, its objective was to balance the needs of economic, social, and environmental stakeholders in how water from Australia's largest river system was allocated. The "Basin Plan" as it is referred to, was passed into federal law in November 2012, and is managed by the Murray-Darling Basin Authority (MDBA). However, as the MDBA (2014) explains:

> *"At the heart of the Basin Plan is the need to increase the amount of water for the environment of the Murray-Darling Basin and ensuring sufficient water for all users. To achieve this balance, the Basin Plan reduces the amount of water that can be taken from the rivers by settling sustainable diversion limits (SDLs) for both surface water and groundwater for each catchment area in the Basin."*

Given the importance of irrigation to the members of YPC, the co-operative was actively involved in the discussions that led up to the finalisation of the Basin Plan. Throughout 2010-2011, numerous community meetings were held and submissions to governments and politicians (both state and federal) were made. Of particular concern to the co-operative's members was the decision to buy back water allocations from irrigators so that sufficient water could be kept within the system to maintain its environmental sustainability.

The implementation of the Basin Plan has taken place over seven years from 2013-2019 and comprised ongoing monitoring of the environment to ensure the sustainability of the Murray-Darling-Murrumbidgee river systems, as well as mechanisms for ensuring the sustainability of the communities and industries that depend on the water from these systems. This included rules for water trading and better access to water market information, the coordination of state and territory watering plans, and mechanisms to ensure that the minimum water supply was provided to local communities within the Basin (MDBA, 2015).

Despite the best efforts of the MBDA to coordinate the Basin Plan, there were many within the irrigator communities who expressed dissatisfaction with the allocation of water. For example:

> *"It can be seen that water allocation is an ongoing problem between irrigators and others who have covert agendas. As yet, there is no guarantee that buyback will result in balanced water sharing or capital infrastructure projects on farms and rivers. There is concern regarding unseen future repercussions (Gribble, 2015, p. 81)."*

During the period 2010-2012 the previous long drought was followed by years of high rainfall, with 2012 experiencing a significant flood that put large parts of the region including the towns of Griffith and Yenda under water. This flooding has subsequently given way to drought, which has seen the MDBA under pressure from irrigators to return more water from the environment to them for farming purposes. This pressure recognises that the Commonwealth Environmental Water Holder (CEWH) has the largest allocations of water within the system under its control. However, as the CEO of the MDBA Phillip Glyde explained in March 2019:

> *"Regardless of the climate, the Water Act does not allow water earmarked for the environment to be returned to farmers either on loan or as a gift. There is provision, however, for environmental water to be sold on the open market, for anyone to purchase, strictly on condition that the environment doesn't suffer as a result. In the event that there is water to sell, the CEWH is obliged by law to sell it on the open market and ask the market price for that water, just as all other water licence holders do. The water of course would go to the highest bidder, not necessarily those farmers who are suffering most from the drought and the process of water reform. It is really important that we all respect the right of people with water licences to use their allocations as they see fit—whether it's environment managers sustaining river ecosystems or irrigators sustaining production (Glyde, 2019)."*

The future outlook for Yenda Producers

When asked about the major foreseeable threats facing the co-operative both Dalton and Calabria placed climate change and the future of water supply for irrigation as the most important.

> *"Climate change and what is going to happen with water is pretty much out of our control, but it is a threat to our business because without water we simply cannot*

> *maintain the level of sales and turnover, plus the same level of staff longer term (Calabria, 2019)."*

Other threats that were identified were the changing demographics within the farming community. This was being impacted by the retirement of many older farmers and the transition from family-owned farms to those owned by corporates, with owners who were not locally based. In this case it was difficult for the co-operative to build up the relationships with the people who represented their member organisations. It also made it more difficult for YPC to service the corporates at a price that was competitive and sustainable, because the larger corporate owned producer organisations were usually highly price sensitive.

However, even where the farms were retained in family ownership, the situation was changing. This was driven by the younger generations being much better educated, with university degrees, plus a greater knowledge and use of technology and social media. This made it more difficult for the co-operative to relate to and communicate with these younger farmers as compared to their parents. These demographic and economic changes were also having an impact on land ownership within the region. Therefore, farms were getting large, but farmers were getting fewer in number, with impacts on the YPC's membership base:

> *"Just the changing ownership of farmland too is an issue. Every farm that goes up for sale gets absorbed into an existing one, so we are seeing much more concentration of ownership. What this means is that our top 10 clients will represent around 50% of our income (Dalton, 2019)."*

Despite these threats, the co-operative remains optimistic about the future. One opportunity identified by YPC is to get "in-front" of the major things that are shaping agriculture, particularly in the light of water scarcity and climate change. The limited availability of water and the available return on almonds has led to an increase in the production of nuts. Further, whilst these nut prices are maintained, there seems to be opportunities for the co-operative to move into the supply and servicing of these new crops:

> *"We need to get in front of what's changing in agriculture, and what I mean by that is with the water prices where they are and the limited availability of water, new crops like nuts are becoming big and this seems like it won't go away in the foreseeable future. So, we can see opportunities in these newer areas, particularly if we can be in front of our competitors for a service that's of value, as well as anything else our members feel is valuable (Calabria, 2019)."*

It was recognised that the co-operative would need to diversify its operations and services to ensure that it maintained its value to its members and attracted new members. The relatively small size of the YPC was also seen as an opportunity so long as it could be "nimble" and willing to undertake new directions. One of these is the potential to widen its operations outside the existing geographic area to overcome the current dependence on access to irrigation water:

> *"We may look at going out of our current area, because our area is solely reliant on irrigation water, and that Murray-Darling Basin and the rules around water trading and how much water you can get all impacts. Also, because they've separated water from land, allowing almost anyone to own water, even overseas interests, everyone strives to get the best returns for their water. So, they don't really care whether it is used within our community or not. They'll send it to whoever is going to pay the most money. So, we discussed maybe looking at other business opportunities that don't rely on irrigation water (Calabria, 2019)."*

This was explained as either offering similar services to farmers located in areas not dependent on irrigation water or undertaking research services for firms manufacturing chemicals. This required conducting field trials and assessments as part of the securing of chemical registrations.

In relation to weaknesses, the key issues identified by Dalton and Calabria, were the co-operative's vulnerability to low water allocation, plus the impact of drought. There was also an issue that was created by the relatively small size of the co-operative, which made it difficult to attract and retain the best employees, particularly, as noted previously, when the larger competitors were able to offer better wages and the potential for a better career path. The YPC was also limited in its ability to finance all the opportunities it might want to pursue.

However, despite these issues, the YPC did have several key strengths upon which to build the future. These included the long history of the co-operative and the fact that it was locally owned and well-regarded within the local community. Additionally, the co-operative enjoyed quite low staff turnover and employed a lot of local people. What this meant was that the name and reputation of the YPC was well known and regarded by the community. Finally, the diversity of the membership base, as described earlier, was also a strength because it covered such a range of agricultural, horticultural, viticultural, and pastoral producers, plus the business and residential consumers. This helped to spread the risk across a broad range of members.

KEY LESSONS FROM THE CASE

The Yenda Producers' Co-operative (YPC) exemplifies the role that CMEs can play in the economic and social development of regional and rural communities. Founded by cooperative community action, YPC was formed in response to the hardships being faced at the time by the early settlers to the region. The ability of the co-operative to provide better prices for goods and services, as well as enhancing market access, building common user infrastructure, and developing new services for members has been demonstrated.

Another important aspect of the YPC case is the firm's ability to form and sustain strategic alliances with other businesses. For example, the development of the YPC Group of subsidiary companies has widened the co-operative's services, but also shown its ability to collaborate with and then manage different businesses, bringing them into successful joint venture partnerships.

The YPC case also provides some valuable lessons about the importance of good governance and sound professional management. Success in any business depends on these factors, but for the co-operative it is particularly important to retain members trust and future loyalty. It also showcases the challenges of developing a coherent member engagement strategy that can serve to communicate the member value delivered by the co-operative, and simultaneously generate feedback from members to assist with future value creation. The relatively diverse nature of the YPC's membership is an additional complexity that the co-operative has successfully managed.

Finally, the YPC case illustrates the significant impact that government policy and environmental change can have on CMEs. As with most firms in its industry, YPC is facing increasing competitive pressures from the concentration of service providers into fewer but larger, and mostly multi-national corporates. At the same time, the demographic and environmental changes within the local community from where its members are found, is posing new strategic challenges for the co-operative. These are the strategic issues that confront most CMEs and require their directors and executive managers to continuously scan their foreseeable threats and identify potential opportunities. How well they then adapt their business model, leveraging the strengths of their internal capabilities, while addressing the weaknesses identified within their organisation, will ultimately decide their long-term survival.

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About the author:

Tim Mazzarol is a Winthrop Professor in Entrepreneurship, Innovation, Marketing and Strategy at the University of Western Australia and an affiliate Professor with the Burgundy School of Business, Groupe ESC Dijon, Bourgogne, France. He is also the Director of the Centre for Entrepreneurial Management and Innovation (CEMI), an independent initiative designed to enhance awareness of entrepreneurship, innovation, and small business management. He is also the founder Director of the Co-operative Enterprise Research Unit (CERU), a special research entity for the study of co-operative and mutual enterprises (CMEs) at the University of Western Australia. In addition, he is a founder Director and Company Secretary of the Commercialisation Studies Centre (CSC) Ltd., a not-for-profit mutual enterprise focused on advancing best practice knowledge of commercialisation. Tim is also a Qualified Practising Researcher (QPR) as recognised by the Australian Research Society (ARS). He has around 20 years of experience of working with small entrepreneurial firms as well as large corporations and government agencies. He is the author of several books on entrepreneurship, small business management and innovation. He holds a PhD in Management and an MBA with distinction from Curtin University of Technology, and a Bachelor of Arts with Honours from Murdoch University, Western Australia.