



THE DAIRYLAND STORY

How the western dairy co-operative added on so much debt, it had to be sold

LIKE MANY COOPERATIVES, CHAOTIC marketing conditions were behind the formation of the Fraser Valley Milk Producers Association.

By 1917, the new co-op represented 90 percent of lower mainland dairy farmers. By 1920, it operated two processing plants and a condensing plant. In 1925, it added a butter, powdered milk and cottage cheese plant to process milk surplus to fluid requirements. Ice cream was soon added to the product line. Things went well for some 70 years.

According to a dairy farmer on the board at the time, the 1980s was a period of positive board/management dynamics. "We had a CEO who was good - just needed someone to stand on his head occasionally. Our chair at the time was strong and could do it. But when he retired, a new chair came in through a merger that had a very different governance style. He was not prepared to lean on the CEO like his predecessor. And so the CEO ran the board and the membership did what the board told them to do."

According to this director, the CEO had two weaknesses: "he was not enough adverse to debt and was soft on clients - really scared of losing an account; if we managed to save 1¢ on a litre of milk, he would give 2¢ away to keep a client..."

But at the time, the Dairyland board didn't have the authority to spend money or go into debt without authorization from the members, so things were kept pretty well in check.

All that changed in July 1992, when Fraser Valley Milk Producers Co-operative merged with Northern Alberta Dairy Pool (Nu-maid Dairies) and Central Alberta Dairy Pool (Alpha Milk) to create a new entity: Dairyworld.

Predictable challenges arise when cooperatives merge membership. Geographic separation adds complexity. But the real challenge in this merger lay curled in the weeds of the new bylaws. And like a snake poised to strike, it took aim at the co-operative heart of the organization.

Alberta's two coops didn't operate under the same rules as BC, and on merger, BC's requirement that members be consulted before spending money was dropped. According to one director at the time, the board "...knew this was not helpful, but the chair wasn't prepared to challenge the CEO, and it went through."

Removing member authority over spending approval removed the last obstacle in the path of an expansionary, CEO-led board.

In 1993, Dairyworld was again restructured and Dufferin Employment Co-op Ltd (Manco) became Dairyworld's Manitoba plant, with 3,000 employees. In June 1996, Dairy Producers Cooperative Ltd. (DPCL) of Saskatchewan was brought into the merger and the company's name was changed to Agrifoods International Co-operative Ltd., the new parent

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company of Dairyworld.

The reorganization resulted in a co-operative with 2100 milk shippers in western Canada, the largest dairy co-operative in Canada. In 1996, sales reached \$1.13 billion. Further expansion throughout Eastern Canada pushed this to \$1.5 billion/year in 2001.

The income statement looked sunny, but the real story was in the balance sheet: debt was growing faster than income. And it was this debt, in the end, that brought this proud farmer co-op down.

Piecing together what happened from speaking with farmers there at the time, the story is a tragic one.

According to my sources, a few people knew a lot and many knew nothing. There was no transparency. Company insiders of course had the full story. The board knew only what senior management told them and the delegates knew virtually nothing of what was going on.

There was, according to some, an attempt to drain the co-op of cash prior to its sale to Saputo which included an unsuccessful attempt by senior staff to arrange a leveraged buy out of the profitable cheese operations, leaving the co-op holding only the low margin fluid milk business with its unsustainable retail contracts.

In a Calgary meeting in January 2001, 120 farmer delegates were given the grim news by the Agrifood Board: the bank had turned the coop down for an operating loan, other banks were running scared, and bankruptcy was imminent. Delegates were told there was only one offer on the table – from Montreal-based dairy giant Saputo – and “were advised to take it.”

A core of delegates argued passionately from the floor to preserve the co-op by seeking bankruptcy protection. This would have allowed

the co-op to restructure debt, develop a strategy to reorganize assets and would have saved the cost of substantial severance packages for senior executives.

In the end, only 10 of the 120 delegates voted with them. The majority were “scared into accepting.” By resolution of the membership, the assets of Agrifoods and its subsidiaries (with the exception of the trucking business and a yoghurt plant) were sold to Montreal-based Saputo.

“No-one knew what was going on” reports an Alberta delegate at that meeting. “Delegates were not kept up to date; there was no transparency... Basically, they destroyed the co-op and Saputo stole it for 50 cents on the dollar...”

The CEO who drove the expansion plans and attendant debt retired when Saputo took over and went on to

become a leadership coach with US-based TEC. His management record at Dairyland is described on the Tec Canada website as follows:

During that time, [he] drove the business from a two-plant operation in the Vancouver Island and Lower Mainland region to a national company with plants operating from coast to coast and selling its own national brands. During this period of unprecedented expansion, company revenues grew from \$180 million to more than \$1.7 billion, and productivity of the company's 3,400 employees increased five-fold on a per-worker basis.

Not a bedtime story. Lessons to be learned. Dairyland's strength was its co-op member/owners. They should never have been cut out of the discussion. But I hear a new conversation is starting... Encouraging. Ⓚ

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— Dr. Tom Troxel



Tom and LuAnn Troxel at their dairy farm with grandson Nathan, 3.

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Tom and his wife LuAnn have a 130-cow dairy farm near Hanna, Indiana, where Tom has his bovine veterinary practice.

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