



Taking the pulse of your cooperative

We can look at the collapse of Dairyland in 2001 for continuing lessons

AS A DAIRY FARMER, you know accurate monitoring of animal health is critical to the success of your farm. Feed uptake, milk production, stool quality, somatic cell count, hoof condition – all are carefully watched so you can take corrective action taken if and when problems appear.

Unfortunately, no easy way exists to accurately monitor the financial performance of those organizations upon which farmers depend for their livelihood; whether you're a shareholder or a member, evaluating financial health based on annual statements is often impossible.

A sad example of this is Dairyland, a successful farmer cooperative begun in BC in the early 1900s that suddenly – at the beginning of this century - collapsed. According to one Alberta delegate, describing the fateful 2001 final meeting: "No-one knew what was going on... Delegates were not kept up to date by the Board; there was no transparency. Basically, they destroyed the co-op and Saputo stole it for 50 cents on the dollar..."

How did it happen? Unsustainable debt. Why

did it happen? Lack of transparency and loss of member control. Like mushrooms, farmers – and Board members - were kept in the dark and fed agricultural byproducts. Corrective actions were impossible. And when the chickens came home to roost, their co-op was gone.

For some 70 years, Dairyland was a healthy and vibrant cooperative. According to directors, the 1980s was a period of positive board/management dynamics: a strong CEO was kept in check by an experienced board and the need to get member approval for new debt. 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.

Two conditions of the merger - replacement of Dairyland's chair by a (less experienced) chair from one of the merged coops and changes to the regulations that no longer required the Board to get members approval for new debt - resulted in a situation wherein the CEO

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basically "ran the board" and directors and members were kept in the dark.

In 1993 and 1996, Dairyworld merged twice again, first with Manitoba's Dufferin Employment Co-op Ltd (Manco) and then with Dairy Producers Cooperative Ltd. (DPCL) of Saskatchewan. With 2,100 milk shippers in western Canada, the newly named Agrifoods International became Canada's largest dairy cooperative. In 1996, sales reached \$1.13 billion. Further expansion throughout Eastern Canada pushed this to \$1.5 billion/year in 2001.

But while the income statement looked sunny, 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.

In a Calgary meeting in January 2001, 120 farmer delegates were told the coop had been turned down for an operating loan, other banks

were running scared, and bankruptcy was imminent. There was only one offer on the table – from Montreal-based dairy giant Saputo – and delegates were advised to take it. 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 for 50¢ on the dollar.

Could this story have ended differently? Absolutely says Alan Robb, co-op forensic accountant based at the University of Canterbury in New Zealand and Adjunct Professor of Accounting, St Mary's University, Halifax.

According to Robb, profit (or share value) is a completely unreliable measure of business performance; enterprise survival depends on two factors - profitability and liquidity. Consequently, he has developed a fully transparent system of analysis that involves monitoring

simultaneously both Operating Cash Flows after Interest and Dividends (OCFAID) and Retained Earnings. When plotted on a single graph over time, these two lines reveal, with devilish simplicity (think smiley face, serious face, worried face, dead face) the financial pulse of an organization.

Robb's analysis has been applied successfully by investor-owned companies, co-operatives and not-for-profits in New Zealand, Australia, the UK and the USA, is monitored as a Key Performance Indicator by many boards and is in use by a national firm of chartered accountants to help decide whether a client is a 'going concern' or not.

Could Robb's OCFAID analysis have saved Dairyland coop? Alan Robb and I are currently analyzing the financials from 1980 to 2001. All we are missing is the 1999-2001 Annual Reports. Brown paper envelopes gratefully received. Stay tuned. ☺

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