

SAOS update

News from, and for, Scotland's farmer co-ops

Mar 2015



Expect More European Agricultural Co-ops in the UK

Expect to see more of Europe's largest agricultural co-ops operating in the UK in their drive for expansion. This was the view of James Graham, Chief Executive of SAOS, opening the SAOS annual conference, as he referred to the dominance of agricultural co-ops in several EU countries, where their average market shares exceed 50%, sometimes by a considerable margin.

James continued: "With UK farm co-ops estimated, as a whole, to have less than 25% of the market, it's clear that more European co-ops regard the UK as an excellent opportunity for their expansion and growth." Pig and beef processing giant, Danish Crown, the tenth largest global agricultural co-op, is well established through its Tulip subsidiary, and Denmark-based Arla Foods is now one of the largest UK milk processors and provides membership to UK dairy farmers. In recent years, farmer owned ForFarmers, a Netherlands' animal feed producer, has made a series of acquisitions in the UK, most recently acquiring the feed business of Countrywide Farmers.

James added: "It's important to understand the scale of these co-ops. Using 2012 figures, Arla's throughput was fifteen times that of First Milk. ForFarmers was seventeen times that of Mole Valley Farmers. The largest cereals co-op in France, In Vivo, was eight times larger than the UK's Openfield. Whilst scale is not always necessary to deliver added value to farmer members, it's nevertheless clear that agri-business is ever more global and major players are investing and expanding rapidly. Scale can provide more capital and finance, as well as knowledge, managerial skills, market access and negotiating power."

The recent joint venture between Scottish Pig Producers, Scotlean Pigs, and Danish Crown's Tulip, with their processing investment at Brechin, provides one example of how smaller UK co-ops can benefit by creating a strategic partnership with a much larger co-op. According to James: "Joint venture with larger European co-ops is a realistic strategy option for our co-ops to investigate to secure our farmers' interests."

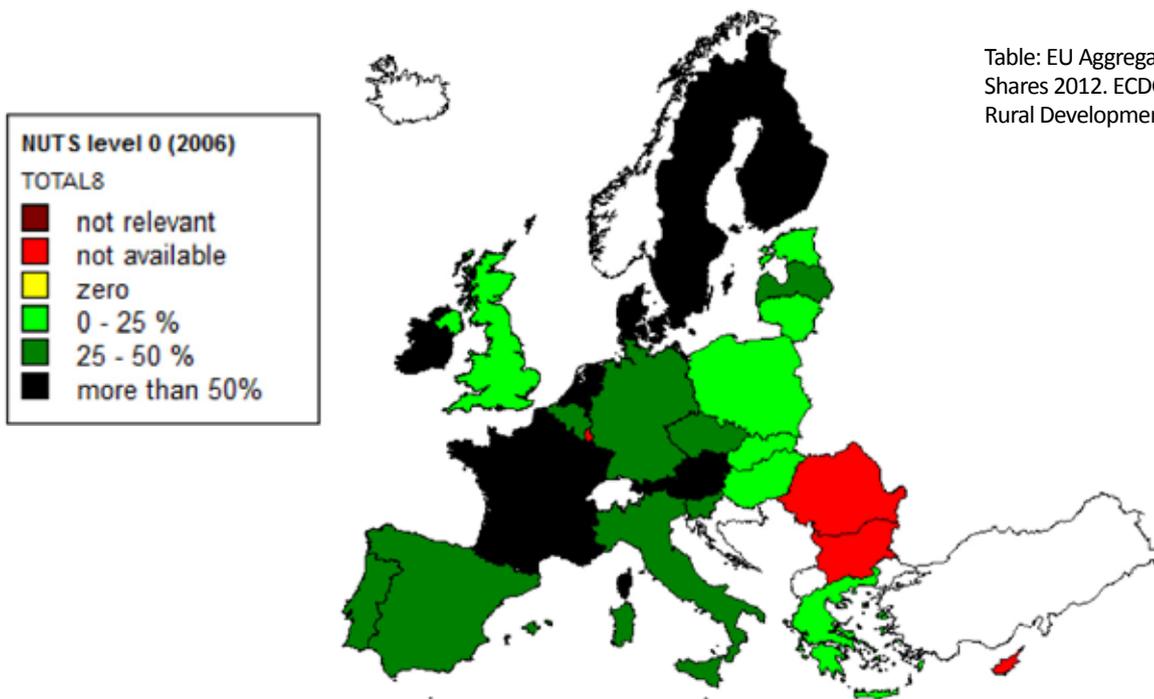


Table: EU Aggregate Co-op Market Shares 2012. ECDG Agriculture and Rural Development

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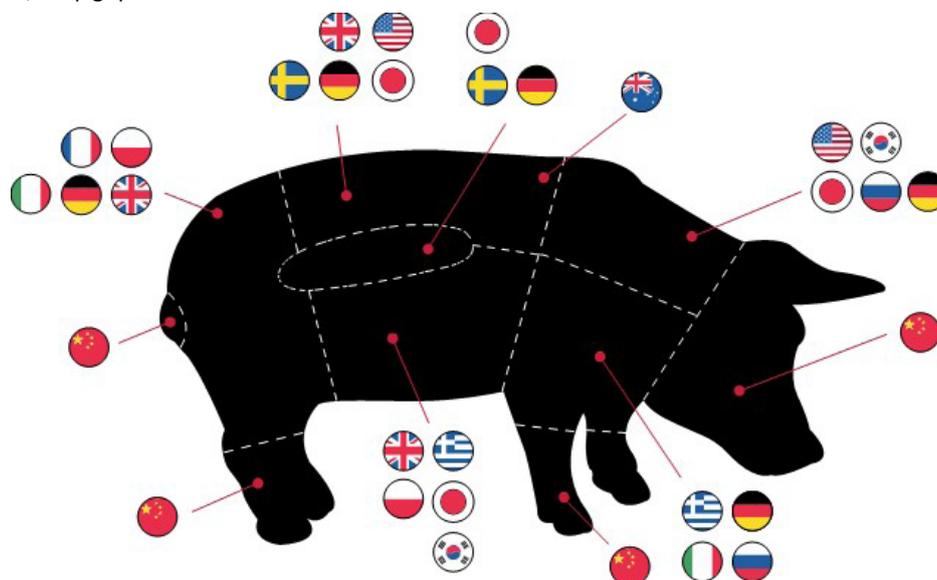
New format for SAOS' Council Meeting & AGM in May



In Pigs, Leadership Means Being Global

To generate the maximum value for pigs, it's necessary to have global market reach according to Erik Bredholt, who addressed delegates at the SAOS conference. The Danish Crown chairman, gave examples of his co-op selling pig heads and trotters to China, where they are important foods, and selling fats to Russia, enabling the co-op to realise value for a product which is otherwise worthless.

Danish Crown sells £6 billion of processed products into 136 markets globally across every continent. It operates 23 abattoirs in Denmark, Sweden, the UK, Germany and Poland handling 22 million pigs and 700,000 cattle. The co-op has 8,200 farmer co-op members in Denmark and Sweden, operating via subsidiary companies in other countries. In the UK, Danish Crown's Tulip subsidiary has entered a collaborative venture with Scotlean Pigs and Scottish Pig Producers (QPL), purchasing the Brechin abattoir which aims to double throughput to 8,000 pigs per week.



As part of their plans for the future of the Brechin facility, QPL has announced it is to invest in upgrading the current site by adding an additional slaughter line, chilling units and lorry wash facilities, with completion of the work targeted for summer 2015.

Andrew Saunders, Director of Agriculture at Tulip Ltd, explains: "We are delighted to be working with QPL to help secure the future of pig farming in Scotland. The area is a superb location for Scottish pig production in both economic and environmental terms. The planned upgrade to increase the site's capacity will mean that even more people across the UK and further afield will be able to enjoy quality Scottish pork."

Patrick Stephen, Scottish Pig Producers' Chairman, explains: "Buying the Brechin facility means we can now process Scottish pigs from Scottish farmers, right here in Scotland, which is great news for the whole of the Scottish farming industry."

Effective Leadership Inspires and Empowers

Leadership in business is progressively undergoing a transition from being autocratic in style to being participative, collaborative and inclusive according to leadership and HR professional, Gail Ellis, who was speaking at the SAOS annual conference. The reason for this is that a collegiate style is more effective at building strong teams in which individuals are highly motivated and achieve their potential. Ultimately, this style of leadership is more enduring and serves business better.

According to Gail, collaborative leadership "ensures that the whole is greater than the sum of the parts. Effective leaders inspire and empower people. They lead change by establishing a shared vision of the future".

Pat Machray OBE, Chief Executive of ANM Group, demonstrated the power of this approach in describing the turnaround strategy of ANM to address losses and high levels of bank borrowing. This had required a culture change within the co-op, transforming levels of transparency and communications amongst the Board, management and members, to establish shared vision, motivation and commitment amongst all. In reference to the role of leader, Pat said: "It's important to stop doing, and start thinking. It's amazing how thinking stops when the business is busy". Leaders should "take a helicopter view. Stand back, hover for a while, and look again at what you see." At ANM, this meant dialogue with members about their needs, appraising products and customers, people resources, operations and fixed assets, identifying challenges and taking action. Critical in this was empowering managers, enabling them to develop their role and personal skills in their careers.

ANM Group had sold part of its ready meal processing interests to a management buyout, and entered a joint venture with other meat processors for investment in new abattoir facilities in which the co-op retained an ownership stake. Throughput of the group was now £152 million, with balance sheet worth of £20 million. There are 5,000 active members and over 200 staff at Inverurie, Caithness and Elgin.



Top 50 agricultural co-ops are growing rapidly, driven by JVs and capital



The top 50 global agricultural co-ops increased their business by 40% in the five years from 2008 to 2013, growing from €226bn to €317bn, according to research by PwC that was presented by Sebastien Murbach at the SAOS conference. A total of 83 joint ventures or acquisitions were made by the top 50, fuelling their increasing scale and accelerating the consolidation across agri-food supply chains.

Mr Murbach explained that growth had resulted from the co-ops' response to five mega-trends that are reshaping food value chains. These include "changing demographics, shifts in global economic power, accelerating urbanisation, climate change with resource scarcity, and technology breakthroughs". Responses of the top 50 co-ops are summarised in the diagram below.

The "co-op responses" require substantial capital investment, and Mr Murbach suggested that "even more acceleration is required by co-ops because private food giants are investing heavily". Going forward, traditional co-op equity raising, supported by the public sector, will prove insufficient. "New modes of financing are emerging with forms of private placement allowing additional room for manoeuvre. Going forward, financial innovation will become a key success factor. Several of the largest agricultural co-ops have already structured their assets in plc's, in which the parent co-op holds a majority shareholding with minority external investors, or they are creating separate investment vehicles to attract and reward external capital." SAOS will report further on financial innovations in a future newsletter.

The cooperatives' answers



Securing Food Supply Chain Through Adequate Financing
PwC

29 January 2015
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Young Leaders are the inspiration at SAOS Conference

Sophie Vance Kinnear and Vicky Gardiner provided fantastic examples of Young Leaders at this year's SAOS conference with their input to our morning forum. Vicky is co-founder of The Scottish Goat Meat Company and Sophie has established herself as a self-employed dairy contractor under SVK Contracts.

The SAOS team members working on our current Next Generation focus, structured the forum around the theme 'What do young people need to be successful?' which included an interview panel session with the two speakers and breakout discussions with the audience. Unfortunately, due to the bad weather and resultant ferry problems, the third planned speaker, Ben Wilson of Inverlussa Marine Services, had to call off.

The speakers were asked to discuss their motivations, challenges and goals, while the attendees were tasked with focussing on what they could do to support the development of the Young Leaders of the future.

SAOS Chairman, Andy Peddie, said that Vicky and Sophie were an inspiration and credit to the industry – we can't wait to see what they do next!





Inaugural Next Generation Award goes to Rory Christie

The inaugural presentation of the SAOS Next Generation Award took place at our Annual Conference, when Rory Christie was recognised for his enormous contribution to co-operation in the dairy industry. SAOS Chairman, Andy Peddie presented him with the award at Crieff Hydro.

Rory has been highly active in the dairy industry over the last few years: with NFUS, he contributed towards the development of the voluntary code of best practice (VCoP) and has worked hard to unite dairy farmers across Scotland to support its introduction – around 85% of the milk volume produced and marketed in the UK now is ‘code compliant’.

In 2013, Rory called for and led the creation of a democratically-controlled Association to allow a 150-strong group of dairy farmers supplying the Fresh Milk Company (FMC) to be professionally represented. Rory was successful in recruiting many dairy producers to support the formation of the Milk Suppliers Association (MSA). He also gained the backing of the FMC for the initiative. Since then, the two organisations have worked collaboratively, pioneering one of the first fully formulaic milk price contracts available in the UK. Rory is Chairman of the group and his persistence and tenacity have been instrumental in delivering successful collaboration in highly challenging times.

While not working on behalf of MSA and NFUS, Rory manages the Durie Farming Company with his father Robin and brother Gregor Christie. In addition to the 1,500 Jersey cross Friesian cow herd, they have recently opened a pig unit and are members of Scotlean Pigs. Rory is a keen innovator and is always looking to improve both his own knowledge and that of others in the industry. He has hosted a number of events at Durie, openly sharing the practices he adopts with others.

Presenting the award, Andy Peddie, SAOS Chairman, commented: “Rory is a passionate supporter of collaboration in farming. His knowledge of the dairy industry is wide-ranging and he has used this to help MSA members and achieve greater price transparency and competitiveness across the industry. He is a great example of what can be done with vision and determination and is a worthy first recipient of this award.”

The Next Generation Award forms part of SAOS’ current work looking at ways to encourage, motivate and recognise younger people involved in agricultural and rural co-ops. Nominees for the award must be 40 years of age or younger and must have made an impression on the industry with their leadership, vision and commitment to co-operation. As part of the award, Rory will be invited to attend next year’s Oxford Farming Conference.



ANM Group Celebrates 25 Years of Thainstone Centre with charity fundraiser

Early in January, ANM Group members, customers and staff came together to celebrate the 25th anniversary of the opening of the Thainstone Centre. The anniversary was marked with a charity dinner and auction, which rounded off a year of fundraising by ANM staff and supporters.

Since its opening, on 3 January 1990, the centre has grown to become the agricultural hub of the North East of Scotland, attracting buyers and sellers from all corners of the UK. Over 100,000 cattle and 300,000 sheep are sold in the Centre every year, leading to an annual turnover of £90 million. The centre has also become a one stop shop for farmers in the north east, with a bank, accountants, a legal practice and a host of agricultural companies on site. SRUC is still giving consideration to a move to the Thainstone Centre and this would undoubtedly make for another excellent match with many associated benefits.

“Over the past 25 years, ANM has processed £4.5 billion of business – a remarkable achievement and contribution to the North-east economy,” said current Chief Executive, Pat Machray, speaking at the event, adding: “The foresight of the directors back then has to be commended in creating the wonderful facility we have today.”

Over the course of last year, ANM staff raised £19,750 for CLAN Cancer Support through inhouse events such as bake sales, sport sweepstakes and sponsored personal sports challenges. The anniversary event, attended by over 400 guests, included a raffle and a special auction and rounded off the year of fundraising efforts in style, with a spectacular total of £80,000 being raised all together.

Pat commented: “Thainstone Centre has diversified over the last 25 years and now represents more than just the livestock market with various divisions under the ANM Group umbrella calling it home. We are delighted to celebrate this milestone by supporting a charity voted for by staff. I am overwhelmed at how much has been raised by staff and supporters - they have done a tremendous job.”



First Milk introduces new milk pricing mechanisms

First Milk has changed its milk pricing mechanisms in a move to align more effectively with market signals and milk production. The changes include the introduction of A&B pricing and closer alignment of milk constituent payments with the core markets for its milk.

One of their core objectives is to have clear pricing mechanisms which allows members to be rewarded for producing the volume, quality and profile required for the co-op’s processing sites and main markets.

Chairman, Sir Jim Paice, commented: “During 2014 we experienced unprecedented volatility in commodity markets and a surge in milk production which not only drove milk prices down but also seriously challenged the mechanisms we used to set the price of milk.

“These challenges included the time lag between making a milk price announcement and it coming into effect when markets are moving so rapidly; and the need to send timely signals of the value of milk which is additional to core market demand.

“Last October we set up working groups to review our current payment schedules and draw up proposals on changes to our pricing mechanisms to deal with increased levels of volatility. The working groups’ proposals have now been discussed and agreed by the Board and our farmer representatives.”

Three main changes come into place from 1 April 2015: The introduction of A&B pricing; Closer alignment of butterfat, protein and hygiene payments according to the end use of the milk; and Clarification on their two main milk pools - manufacturing and balancing.

The First Milk Board believes that implementing these changes will benefit members by quickly and clearly reflecting market returns. This will enable members to make more informed production decisions, take advantage of market upturns, or mitigate their exposure to market falls. These changes also give members the opportunity to achieve a higher milk price by tailoring their production to the specific market requirements for their milk.

From March, members will receive a letter and new pricing schedule from First Milk’s Farm Enterprise Team, setting out how these changes will be implemented, specifically for their own milk supply. This letter will also inform members of dates in their area for “drop-in days”, where they can have a face-to-face meeting with a Farm Enterprise Team member to discuss the calculations for their own farm, using the new schedule that applies from 1 April.

Survey shows strong commitment from member co-ops to helping Next Generation

As part of SAOS’ Next Generation focus, towards the end of last year, the project team surveyed many of our member co-ops to gauge how involved they were with young staff, members and students. A good cross section of responses was received, with lots of positive feedback. Many thanks everyone who helped with the survey.

With the results from the survey, the team has identified where our member co-op needs are and how we can help them to support their ‘Next Generation’.

The following activities have been added to the ongoing work plan for the group:

- Produce an ‘Introduction to Co-ops’ information pack for co-op Managers to hand out to new members of staff to ensure they are well-informed of the role and scope of co-operatives throughout Scotland.
- Continue to develop current young staff who are taking part in the ‘Co-op Staff Forum’, with the potential to set up a second group in the south of Scotland.
- Support co-ops who are interested in setting up a Next Generation Board/Council.
- Develop new working relationships between our co-ops and further education establishments. This will include introducing students to potential co-op work experience and placement opportunities and exposing students to a variety of co-ops through visits and guest speakers.

The team would be delighted to hear from anyone who is interested in getting involved and didn’t get the chance to speak to them. Please don’t hesitate to contact them:

anna.robertson@saos.coop

emma.pattersonataylor@saos.coop

stephen.young@saos.coop

fergus.younger@saos.coop

GrainCo exports largest ever shipment of feed barley from the UK

Late February saw the largest shipment of feed barley ever to be exported from the UK, with 66,000 tonnes headed for Saudi Arabia on the MV Rosco Poplar. The shipment, which took ten days to load, set off from GrainCo's own deep water facility in South Shields and was part of a very ambitious export programme, with barley from various North East ports heading to a range of destinations worldwide.

Charlie Birnie, GrainCo Scotland's Commercial Director, commented: "This signals better news for Scottish growers in a period of depressed ex farm values. These large volume cargoes complement our coaster vessels from Scottish ports and allow growers to maximise values in a difficult year – a large volume of barley from central Scotland was moved down to Tyneside at a premium to meet this vessel. With the support of growers, this is an aspect of the business we would like to develop, as the large volume export market is crucial for Scotland - especially in a year of big surpluses such as this.

"Unfortunately the pricing mechanisms tend not to be very transparent which makes it difficult for growers to develop a robust marketing plan - this is something we're keen to address. The influx of large volumes of cheap maize into Scottish consumption is also a concern and further underlines the need for exports."

GrainCo's campaign this marketing year has ranged from a small 'combi cargo' of barley and wheat heading to Iceland in what is believed to be the North East of Scotland's first export of wheat, right through to shipments of feed barley elevated from Montrose, Aberdeen and Peterhead, bound for destinations including Belfast, Rotterdam and several ports in Northern Spain.



Aberdeen Grain chose Frontier as new marketing and strategic partner

Aberdeen Grain has confirmed that, from this year's harvest, Frontier Agriculture will take the role of the co-op's new "marketing and strategic partner". This move means a parting ways with Openfield, which has handled their marketing for the last decade.

Bruce Ferguson, who is Frontier's General Manager in Scotland, was previously employed by Openfield as their general manager for Scotland, managing Aberdeen Grain and Angus Cereals.

Ian Cruikshank, Chairman of Aberdeen Grain, commented: "As Aberdeen Grain continues to grow we are looking to the future and feel that the time is right to make this change. We are committed to adding value to our members' businesses and this move will bring exciting new opportunities for our growers."

Ian said that Aberdeen Grain had enjoyed a successful relationship with Openfield, during which time the co-op had grown its membership and built their state of the art grain storage facility at Whiterashes. He added: "We thank Openfield for their significant contribution and financial support over the past ten years but our requirements are very different to what they were ten years ago."

Congratulations to our Credit Union Survey Draw Prizewinners!

We were delighted to provide a few early Christmas presents in December, when we held the prize draw for participants in the Credit Union Survey.

The top prize - a voucher for a break at Crieff Hydro - was won by **Sandra Hamilton** who works at BMR. Sandra got a very pleasant surprise and is very much looking forward to her break: "We haven't managed to book anything yet but hope to get there before a busy spring. There are lots of activities to choose from and I'll book some before I go. I still can't believe I've won!!!"

The other winners, who each received a cheque for £100, were: **Andrew Grant, Simon Dacre, Jo Hunt and Donald Macleod.**

Congratulations to them all and thanks again to everyone who took part in the survey and provided valuable input to our research.



Monthly themes provide focus throughout year of Food & Drink

Scotland's larder is in the spotlight once again in 2015 as, in partnership with Scottish Government, VisitScotland and EventScotland, Scotland Food & Drink celebrate the Year of Food and Drink.

The aim of the Year is to mark, highlight and promote Scotland's abundant, quality produce to our people and visitors, demonstrating that we are a destination for delicious food and drink and its key role in our economic growth and cultural development.

Producers, retailers, caterers, wholesalers - anyone involved in the food and drink industry - is being asked to get involved and make the most of the year for your business and our flourishing sector, taking advantage of the enhanced focus on our larder and people behind it.

There is a series of Monthly Themes to inspire and guide potential events and activities. 'Traditional Foods' was the focus in January and the 'Food of Love' was the theme for February. Later in the year, Summer Fruits and Berries are July's focus, with Hearty and Heartwarming foods the theme for November.

Find out more in the industry guide, which contains all the themes as well as lots of hints and tips. You can download Visit Scotland's marketing toolkit, and the Year of Food and Drink logo at: www.visitscotland.org

Think Local's Community Food Fund will be contributing funding in assistance of EventScotland, towards encouraging new and existing food and drink events to take place across the year. The next submission deadline is 26th March 2015. Go to: www.sruc.ac.uk/info/120103/food_and_drink for more information.



Invitation to Farmer directors and co-op managers - Save the date: 20th May 2015

Help shape SAOS' strategic priorities and services

Our Council meeting and AGM in May will take on a different format this year.

We want to supplement Council's meeting by inviting farmer directors and managers from all SAOS' members to join us and participate in discussions that aim to identify priorities for SAOS to address.

James Graham, expands: "After an introduction to update members on the breadth of SAOS' work, we will split into a number of round-table discussions. Each group will be assigned a topic to kick-off discussion and one of our team will help steer debate towards priority actions for SAOS.

We frequently assist co-ops to obtain feedback and input from members as they review strategy. That's exactly what we are doing for SAOS at this event. Our Board and staff will draw on the outcomes as we review SAOS' strategic priorities in the following weeks. The more participation we have on 20th May, the better attuned to members' and industry's needs the strategy will be."

Alan Taylor available for non-executive Directorship position

Alan Taylor has approached us to communicate the fact that he is available to take up non-executive directorships. Many of you will know Alan, who is a senior professional with 18 years' experience in executive and company director roles within UK co-operatives operating in the agriculture and food sectors.

Alan has a proven track record of leading and developing professional teams with responsibility for the development and implementation of new initiatives. Until recently, Alan was with First Milk as Membership Director, a position he held for 13 years. Prior to that, he held the same position with Scottish Milk.

Alan is an analytical thinker with strong commercial acumen and significant experience in change management. Strongly driven with high integrity, he is focussed on adding and delivering value and would bring invaluable experience to any board.

James Graham commented: "We encourage member co-ops to look outside their own members to strengthen the Board. Non Executive Directors sit on the boards of thousands of private, public and not-for-profit companies in the UK. The right appointments add senior level strategic experience and an external perspective. They have been proven to increase Board effectiveness."

If you think your board may be able to make good use of Alan's experience, contact james.graham@saos.coop

Relaunched Director Development Programme Proves Popular

Over the winter we've had excellent take up of our relaunched Director Development Programme, with a great range of co-ops taking part. The 'Effective Co-op Governance' and 'Developing Strategic Capability' sessions were held in November and December.

The latest topic to be covered was Marketing and Member Relations, which was run with two different groups in February. Hamish Walls, SAOS' Marketing Specialist, ran the sessions at Huntingtower Hotel and taking part over the two sessions were members, directors and staff from:

Angus Cereals
ANM Group
Borders Machinery Ring
Caledonian Organics
East of Scotland Farmers
Farmstock
GrainCo
Milk Suppliers Association
Ringlink Scotland
SAOS
Scotlean Pigs
Scottish Borders Produce
Scottish Pig Producers

The groups were asked to look closely at their own co-ops and consider what works well and what could be improved in their marketing mix and, in the afternoon sessions, they reviewed their co-ops' communications with members. As suspected, the make up of both groups threw up vast differences in the priorities and difficulties the various co-ops have.

The Communications session in particular showed up how few co-ops have a budget or actual communications plan and that all of them find it a challenge to get the appropriate messages across to their different audiences effectively. The preferences individual delegates had for how they like to be communicated with clearly proved that there is no one ideal way and that a mix of media is what is required.

The next sessions in the Director Development Programme will take place over winter '15/16 and deal with Collaborative Supply Chains and Finance for Co-ops.

For more information on these and our other courses, contact: anna.robertson@saos.coop

We've just added a new Director Development course for Co-op Secretaries which will take place on 11th November 2015 at Huntingtower Hotel. More info on this course will follow in due course. Please save the date.