

Just how good are our co-ops?

Delegates at our February conference to hear from global co-op experts



You will be able to gauge for yourself just how good Scotland's farmers' co-ops are at SAOS' conference on 2nd February 2012. Opening the conference will be Dame Pauline Green, President of the International Co-operative Alliance, the membership body of co-ops around the world and guardian of the co-op principles that are embedded in national laws worldwide.

Joining Dame Pauline, will be Professor Tim Mazzarol of the University of Western Australia, who is leading international research on what makes co-ops successful and sustainable. This research has considered factors as varied as governance, member value and communications, and strategies for capital. Some of the research is still underway with co-ops in Scotland. Delegates at the conference will be the first to hear the results of the research, which are to be published in a book in 2012.

To complement these pre-eminent guests, we have assembled a group of home-grown top speakers to address the following:

- Where Scotland's co-ops fit in the global scene
- How to build strength in the marketing chain
- Delivering exceptional service for members
- Determining membership strategies
- Innovating for competitiveness and resilience
- Getting the right directors on the Board
- Planning capital to realise co-op goals.



Dame Pauline Green, President, International Co-operative Alliance

According to James Graham; "We're really focussing on the nuts and bolts of successful co-operation at this conference and that seems especially appropriate in the UN International Year of Co-operatives. It's a great coup to have Dame Pauline Green and Professor Tim Mazzarol address us. Each in their own way brings an extraordinary wealth of knowledge that they will share with us and, in turn, our Scottish speakers will demonstrate some exceptional home grown examples that we believe stand comparison with the best in the world."

Stewart Stevenson, Minister for Environment and Climate Change in The Scottish Government, will address guests at SAOS' annual dinner following the conference.

Full details of the conference and all the speakers can be found in the conference brochure which is enclosed with this mailing of SAOS update, together with a booking form. Please ensure your booking is with us by January 26th 2012.

Two conferences on the same day...

Make the most of your day on 2nd February by attending the EQ Conference in the morning and the SAOS Conference in the afternoon, both are taking place at the Carnoustie Golf Hotel. For details of the EQ event contact them on: 01382 312100

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CO-OP NEWS

UN International Year of Co-ops launched

The United Nations International Year of Co-operatives was launched at the UN in New York on 31 October. Secretary General, Ban Ki-moon said; "Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility." At a side event organised by the UN Food and Agriculture Organisation, Eve Crowley, Deputy Director described co-ops as important contributors towards future food security and as making a "critical contribution in sectors of the economy and in geographical places where other parts of the business world may not have a financial interest." She pointed out that co-ops are "extremely important in rural areas as a channel for investment".

Co-op Law Changes from January 2012

A key Legislative Reform Order making changes to Industrial and Provident Society law was formally accepted in the UK Parliament on 8 November, and is expected to take effect from 8 January 2012. This introduces three changes:

- **Shares.** There will be no limit on the maximum holding of transferable (non-withdrawable) shares. This in effect means that co-ops could in future structure their share capital like some private limited companies in agriculture, and operate internal share markets. The current £20,000 maximum individual holding of withdrawable shares remains in place meantime.
- **Interim Accounts.** Co-ops will be able to publish unaudited interim accounts provided they are clearly identified as such. This is not likely to affect many agricultural co-ops.
- **Age Limits.** People under the age of 16 will be allowed to become co-op members (providing they meet other eligibility criteria in the Rules). Members under 16 years of age will be permitted to stand for election to the Board.

Commenting on the changes, SAOS Chief James Graham said: "Alongside Co-operatives UK, we have been working towards these and other changes for a long time. They help to put co-ops on a more equal footing with other business forms, but we really want to see the £20k max individual limit for withdrawable shares also increased as soon as possible. We remain in discussion with HM Treasury on that point. We are certainly now keen to talk with any SAOS members interested in exploring the introduction of a transferable (non-withdrawable) class of shares and creating an internal share market. This would be a significant change, consolidating the transferable share capital permanently on the balance sheet."

OFT Updates Advice on Co-operation & Competition Law

The Office of Fair Trading has released an updated version of its guidance note: **Frequently asked questions - how does co-operation between farm businesses fit with competition law?** Competition law has evolved since the original document was released in 2004. In addition to noting new developments in the law, the revised document adds more information on:

- How the OFT defines markets and estimates market power.
- How the OFT determines whether there are competition problems in a market.
- Where collaborative activities are most and least likely to breach competition law.

For a PDF or hard copy version of the guidance, contact SAOS - 0131 472 4100.

Director Remuneration Survey 2011

SAOS and EFPF are conducting our third survey of Director Remuneration, and ask all who receive a copy in the mail to complete and return the survey form by 16th December.

Jim Booth is coordinating the survey and said; "Director remuneration is a fundamental issue and a subject of continued interest for co-operatives and their directors. SAOS and EFPF have again joined forces to produce the most authoritative information available on the subject. This will provide valuable and factual guidance to co-op boards and members concerning Directors' remuneration."

All survey forms will be treated confidentially and no information will be attributed to any person or co-op. All participants will receive a free copy of the survey report.

Updated Governance Guidelines for Farmers' Co-ops

SAOS has updated and reissued its acclaimed publication: *Governance Standards for Co-ops: a guide to best practice*. A copy for all co-ops and farmer directors is enclosed with this newsletter.

Bob Yuill said; "We have been through the publication with a fine tooth comb to make sure we are reflecting current best practice, and we have introduced a new section that we have called 'the co-operative difference'

to provide directors with a clear explanation of the fundamental features that distinguish co-ops from companies."

The Standards are presented in a bullet point format to keep them succinct and understandable. Bob adds; "If anyone wishes to discuss anything we have presented, or how the standards might be implemented in their board, they should not hesitate to get in touch."

The Bribery Act 2010 now in force

Under The Bribery Act 2010, which came into force on 1 July 2011, an organisation may be liable for "failing to prevent" a person from bribing on its behalf.

There is however a full defence if the organisation can show that it had in place adequate procedures to prevent bribery.

Bribery is broadly defined as giving a financial or other advantage to a person to encourage them to perform their functions improperly, or to reward that person for already having acted improperly. An organisation could be liable if a senior manager, employee or agent commits a bribery offence.

The Ministry of Justice suggests steps that can be taken to evaluate the risk of bribery and to ensure that adequate procedures to prevent bribery are in place. In most farmers' co-ops, the risk is not likely to be high and therefore complex procedures are unlikely to be required.

If you would like further information, you can obtain a copy of the Ministry of Justice Guidance Notes and a model bribery policy by contacting SAOS.

SAOS NEWS

Awareness Raising Campaign focuses on the North and North East

Our Awareness Raising Campaign reached Thainstone in October, where MSP Alex Johnstone gave the key note speech at the latest event to raise awareness of the contribution that farmers' co-op businesses make to the economy and their local communities. In total, the 12 co-ops involved in this leg of the campaign:

- have 14,981 members
- employ 641 people
- have a combined turnover/throughput figure of £423 million.

The event was also attended by Dennis Robertson MSP and an audience of councillors, academics and interested parties from a wide variety of organisations. This leg of the campaign also received excellent local press coverage. Pictured left to right are members of the twelve co-ops involved who joined us: SAOS Chairman, David Mitchell, John Gregor of ANM, Alasdair Cunningham of FCS, Graham Bruce of Ringlink, Gordon McKen of Scottish Pig Producers, Andrew Nichol of DWP Harvesting, Bruce Ferguson of Aberdeen Grain, Ron Dawson from ACT, Andrew Nichol of Scottish Agronomy, Tim Halliwell of Saltire Seed, Mark Clark of Grampian Growers, Simon Barry of Highland Grain, Alan McLean of HBS and James Graham, SAOS' Chief Executive.



How is your co-op performing?

A co-op's purpose is to provide benefit to members but how many co-ops actually measure the benefit they provide to their members? Well one of the best methods is to simply ask your members! Conducting regular Members Surveys is a great way to get feedback from members, which can be used to make improvements to service levels and support future business development. As Jim Booth commented "In recent years we have seen a marked increase in requests to help our co-op boards conduct surveys of their members. Many of our most progressive co-ops are now conducting a Members Survey every 3 years as part of the drive to improve service levels, which often includes developing a Member Service Programme."

Some of the benefits of conducting a Members' Survey include:

- gathering feedback on current operations and services
- gauging member loyalty
- researching members' future intentions
- identifying factors influencing members decision-making
- supporting member engagement
- guiding improvements to member services
- supporting future business development

One of the Co-ops that undertook a members survey was Tayforth Machinery Ring. Their chairman John Hutcheson commented: "Tayforth Machinery Ring completed a Members Survey this summer with SAOS' support which was a great success for both the Board and members. The responses exceeded our expectations and we are actively thinking how we use the information gathered to drive future business developments" - John Hutcheson, Chairman, Tayforth MR. **Please contact Jim Booth on 01651 843607 jim.booth@saos.coop for more info.**

Learning more through sharing

Are you interested in a new service to train co-op staff and broaden their experience by inter-co-op knowledge sharing and job placements? Hamish Walls of SAOS is looking for member co-ops that are willing to take part in a pilot that will test the effectiveness of this approach.

According to Hamish; "The aim of this pilot is to test arrangements for knowledge transfer and skills development by sharing what we already have in our co-op family of businesses. We are all aware of the necessity of training and the multiple benefits to our co-ops of well trained and highly motivated staff, but it is difficult to find personal development that is designed for co-op circumstances. It's clear that amongst our co-ops, there are some deep skills and decades of accumulated experience."

Amongst SAOS members, some sharing already takes place. Engineers from Aberdeen Grain have assisted Angus Cereals to commission

and operate their new plant. Machinery ring staff have adopted a collective approach to IT training. However there remain many common business functions about which knowledge could be shared and skills training developed. These include communications, marketing, finance, systems and databases amongst others.

Hamish says; "At this stage, we are not being prescriptive about what might be available or what kind of arrangements might be agreed. To get us started, I would like to hear from any co-op that is seeking knowledge share or skills training and thinks it might be available within the co-op sector. And I want to hear from any co-op that is prepared to share and participate. SAOS will seek and broker arrangements and monitor outcomes to ensure they meet the expectations and needs of all involved."

Contact Hamish Walls on 01896 820291 or hamish.walls@saos.coop to find out more or to get involved.

MEMBER NEWS

First Milk maintains progress

First Milk delivered solid financial results for the six months to 30 September 2011. Despite challenging economic conditions, an operating profit was achieved of £4.7m (up from £3.8m in 2010). Pre-tax profits held steady at £3.2m for the second year (this figure is net of £0.9m that was paid out in June as a return on members' capital for the six months to 31 March 2011.) Group turnover was £272m (down slightly on last year's £280m). At 30 September, bank debt

was up slightly at £70m on last year's £63m – this was mainly due to increasing cheese production in response to the rapid growth in branded sales.

First Milk chairman Bill Mustoe commented: "We've set quite a pace over the last 18 months, but despite the tough UK and global economy, we will not be slowing down. Members tell us they want change in this market. They want us to re-work the old ways and look at new opportunities.

"In addition to continuing to deliver solid financial results, we have moved our milk price by more than any other national dairy

company in 2011. Equally importantly, we know from feedback that our producers appreciate the transparency of our milk price. Last year, we paid out a return on members' capital for the half and full year results. Likewise, we intend to pay a return on members' capital linked to our performance in the six months to September 2011 and will contact members later this month to confirm the details of this payment.

"When we speak with farmers who are not part of First Milk, the message that we're picking up is that they see their future in farmer co-operation, not division."

Lockerbie Creamery transformation

At the end of September, Milk Link announced a major £20 million investment to transform its Lockerbie Creamery - enhancing both its capacity and capabilities and making it one of the UK's leading Cheddar production facilities. When completed in the Autumn of next year the investment will make Lockerbie the largest dairy processing facility in Scotland and one of the largest and most advanced creameries in the UK. The site will benefit from a major redevelopment with the installation of the latest processing technology increasing annualised production by 50% to over 37,000 tonnes of cheese per annum. It will enable Lockerbie to build its reputation for making great tasting cheeses, improve further its product consistency and productivity and reduce its environmental footprint. The investment at Lockerbie will reinforce Milk Link's leadership position in the production of high quality British cheeses. It will complement its other major Cheddar creameries – Taw Valley in Devon and Llandyrnog in North Wales – and enable the business to meet the growing demand from leading retailers, foodservice businesses, food processors and export customers for its high quality range of customer label and branded cheeses, butters and dairy ingredients. The capital investment programme will be the largest undertaken to date by Milk Link and indeed is one of the largest investment projects in cheese manufacturing seen over the last 20 years in the UK. At the same time, it provides a timely boost to the dairying sector in South West Scotland and the North of England, increasing the volume of milk from the region going into value added dairy processing.

Further good news for Milk Link came with their half year results – turnover was up to £311.8m, up by £28.8m. Turnover per litre was at 40.8p, up 4.3p, and an additional £16.9m was paid for members' milk compared to the last half year. Members' funds increased by £6.4m to £75.3m and the co-op's net debt was reduced by £5.2m to £85.8m.

Record year for EoSf

Chairman George McLaren reported excellent results for East of Scotland Farmers Ltd at their AGM in November.

It was a record-breaking year on several fronts for the co-op (which supplies three of the five maltsters in Scotland) - they handled their highest ever volumes of grain and malting barley, and also supplied more seed to members than ever before. Their turnover increased to £15.2million, up from the previous year's £12.1m, and profit (after tax and interest on share capital) increased to £278,454, up from £268,909 the previous year. For the fourth successive year, there was a surplus of around £250k.

Shareholders' funds were standing at £2.652m (previous year £2.363m) and bank overdraft loans were just 7.9% of shareholders' funds at year end (down from 108.3% four years ago).

Mr McLaren acknowledged the strong returns to all members who had supplied grain to the marketing pools. He said, "we will continue to focus on the domestic market for malting barley in preference to exports, because it provides a more consistent market-place for members' barley. Given the current growth in Scotch whisky sales – despite the global economic slowdown – there is strong demand for our produce on our doorstep."

Focus on profits and forestry at Ringlink AGM



Ringlink (Scotland) Ltd, the UK's largest farm labour and machinery sharing co-operative, together with its subsidiary company Ringlink Services, has again bucked the recessionary trend by reporting a massive 28 per cent increase in throughput.

The combined turnover in the year ended 31 July rose to £37.9 million. Net profits for the co-op rose 59 per cent, with chairman Mark Ogg saying this will enable structured investment within the business. Turnover was boosted by a large increase in the value and volume of commodities traded by the co-operative, but labour demand continues to be a major part of the business and has seen a 21 per cent increase in the year.

More businesses are now reluctant to take on the commitment of employing permanent full-time workers, preferring to use Ringlink to supply their labour as and when required. Mark said he expected further expansion in this sector. In his chairman's message to Ringlink's 2,600 members, he said this tight control on management costs had helped keep annual subscriptions at the same level as they were some 18 years ago.

Bob Yuill of SAOS spoke at the meeting about a woodland management pilot project with the Forestry Commission and the as-yet-untapped possibilities for members. More than a quarter of all trees in Scotland are on farms, but forestry has never been seen as an integral part of the business and these woodland areas are often under-managed. Bob said he was staggered by the level of interest from Ringlink members right across the area: "We have, as we expected, a number of farmers with a few acres of trees, but we are also getting interest from growers with larger blocks of forestry of up to 200 hectares. There are grants for planting trees, but the application forms are not easy. I believe that by linking up applications, we might be able to reduce the bureaucratic hurdle."

Bob said that while the market for wood fuel had risen, so had the wider value of timber. Farmers should be aware that the value of their timber could be much more than 'just that of a pile of logs'.

Contact bob.yuill@saos.coop for more information on the pilot.

We'd like to remind readers of some of the benefits and services that are available through Scotland Food & Drink. We plan to focus on some of these over the coming issues of SAOS Update. This time we're looking at the INSIGHTS Service.

INSIGHTS is the information, intelligence and knowledge provider for the Scottish food & drink industry. INSIGHTS can keep you informed and up to date in areas such as market intelligence, the economy, emerging innovation and general news. The service aims to help users to make important business decisions from an informed position.

INSIGHTS services include free advice and market intelligence summary reports through the Scotland Food & Drink helpline, open access to selected market research reports, quarterly 'Spends & Trends' publications with analysis of economic and consumer trends, special industry reports, access to specialist market information from recognised industry experts including IGD, Kantar, Nielsen & New Nutrition Business as well as bespoke research delivered through the INSIGHTS consultancy service.

What does INSIGHTS actually do?

- Delivers market intelligence, shopper insight, retail analysis, category insight, NPD and future forecasting which are all essential to building and maintaining strong businesses. Companies need it, retailers demand it, INSIGHTS supplies it.
- The service covers all categories and the team has a wealth of experience and knowledge of food and drink consumers, shoppers, markets and trends, UK and abroad.
- It's available to every Scottish food and drinks company (including SAOS members) and for key support services.
- The team works closely with the SF&D Access to Markets team and the major retailers to prepare companies to grow within both the UK multiple and independent sectors.
- We are user friendly, jargon free. You don't receive data, you get a tailored solution to your business challenge, driven by insight.
- All initial enquiries and general market background reports are free of charge.
- Regular publication of summaries and reports ('Spends & Trends' and Special Reports) available from the website.

For more info, contact **Andrew Niven or Kenny Martin 0131 335 0944/0946** or visit the **INSIGHTS page on the Scotland Food & Drink Website - www.scotlandfoodanddrink.org**

C2 PROJECT - COLLABORATION SURVEY SUMMARY

Scottish food and drink businesses are developing more long-term, positive, collaborative trading relationships with their supply chain partners. That's the key message from the second SAOS/Cultivating Collaboration (C2) survey on collaboration in the industry, published in November.

The first survey took place in 2008 and the questions remained the same in order to monitor changes in attitudes to collaboration and collaborative behaviour over the three year period of the C2 project.

The main findings of the 2011 survey are:

- Over 70% of companies are working with supply chain partners to develop new products, forecast demand and supply and develop new product specifications.
- 35% said 'many' of their relationships were collaborative (up 3%)
- 80% of those in collaborative arrangements felt that the benefits of partnership were shared fairly between the participants (up 7%).
- Businesses are also sharing more resources in 2011 compared to 2008: particularly sharing equipment (up 10%), transport (up 8%) and training (up 7%).
- Improvements in information flow up and down supply chains were also reported – with 20% stating that there was full, open sharing of information throughout the supply chain (up 8%) and 61% stating that they felt there was openness with their immediate suppliers and customers (up 3%).

Commenting on the survey, Alan Stevenson, SAOS Supply Chain Development Director and Director of the C2 project said: "We recognised from the start of the C2 project that changing attitudes to collaboration is a long-term process – in other sectors evidence has shown that it can take 10-15 years - but we are very pleased with the progress which has been made so far.

"The results indicate that there has been a positive shift in terms of improvements in industry's trading relationships, information flows and mutual sharing of knowledge and resources. However, we recognise there is still a long way to go before supply chains are fully open and transparent with clearly aligned business goals that can deliver additional commercial advantage.

The survey, which was carried out between June and September 2011, attracted 259 responses from primary producers, marketing co-operatives, wholesalers/distributors, processors and retailers, representing all sectors of the Scottish food and drink industry.

The C2 project, which is jointly funded by SAOS and the Scottish Government, was established to stimulate, encourage and support collaboration in Scottish food and drink supply chains to improve profitability, market responsiveness, efficiency and sustainability.

**More info about the survey is available at www.ctwo.org.uk
Tel: 07799 450792 Email: fiona.hamill@saos.coop**

PROFILE - ROBIN BARRON

Continuing our series of profiles on SAOS staff and directors, this month we focus on SAOS Board member, Robin Barron, who is also an ex-employee, having worked as a Project Manager from 1997 to 2004. Robin is General Manager of East of Scotland Farmers.



East of Scotland Farmers recently reported on a very successful year, tell us a bit more about the business and how it's performing.

EOSF's core business is drying, storing and marketing malting barley and other grains. We also supply fertiliser, seed, agronomy advice and chemicals, and we provide contracting services specialising in one-pass drilling and spraying. Our Country Store, upgraded in 2007, supplies a wide range of goods to farmers and the public, including animal health products, feeding, tools, clothing, pet foods, and a host of other things. The business has recorded four successive years of strong profits, but that is only half the story. We must also ensure that members receive a good price for their grain, and that we supply them with competitively priced inputs and a dependable service.

What are the main benefits for members?

We deliver benefit in terms of market security, risk management, and ultimately decent returns for the grain we market. But our business model ensures additional benefits: Most agricultural merchant businesses are specialised in terms of the products or services they offer, and they cover a large area – often national. EOSF is the opposite. We have a diverse portfolio of products and services, and we cover a relatively limited area. Therefore, our members have a one-stop shop on their doorstep. More than that, the business is open and transparent for them to deal with, and they can trust us to look after their best interests. We can provide high levels of service thanks to our staff's detailed knowledge of our members' businesses, and their accessibility by members.

What's the most enjoyable part of your job?

I enjoy the variety of tasks that are inevitable when managing a relatively small but diverse business. I particularly like the wide interaction with people that the job demands: close working relations are required with staff, directors, members, grain buyers, suppliers, and a host of others.

How did you initially get involved with co-operatives?

My first experience of co-operatives was delivering grain to EOSF from the family farm as a 17 year-old, so I've come full circle! I came across Montrose Potatoes and Grampian Growers when working as a farm student, but it wasn't until I joined the SAOS staff in 1997 (after working for a national grain trading company for five years) that I started to appreciate the full role and benefits of co-operatives.

What do you see as the biggest challenges for SAOS?

SAOS is owned and governed by land-based co-ops, and traditionally its work has revolved around these member businesses. But in order to serve its members effectively, the organisation has to have knowledge and influence throughout the food production chain, and have a good working relationship with other sector bodies and government officials. So year on year SAOS is getting bigger and achieving more. Inevitably, more of its work is out of sight of its members, so the big challenge is to keep developing (at a time of reduced public spending) whilst maintaining the strong links with member co-operatives that gives SAOS its unique standing in the industry.

If you could change one thing about the agriculture industry, what would it be?

There are some farmers who look first to Government to provide solutions to their problems, and others who prefer to look for commercial solutions. I would like to see more in the latter group! Thankfully, it is the commercial types who are inclined to be involved with co-ops.

How do you like to spend your free time?

Like most parents, I operate an unpaid taxi service on evenings and weekends. Between 'fares', I like to try and stay fit by running, cycling or hillwalking.

What's your ideal holiday?

I tend to get bored easily, so I need things to do! The presence of friends or family is required to have a beer with in the evening, but the destination is incidental.

A very merry Christmas and a happy and prosperous New Year from everyone at SAOS to all our readers!

If you have anything to contribute towards future editions of SAOS Update, please contact: jennifer.Grant@saos.coop