



**Taking the Pulse of your Co-operative**  
**OCFAID: a new tool to diagnose financial health**

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Resource Economist  
Columnist

Case Study #1: OCFAID ANALYSIS and Dairyland  
*Building a Better Toolbox to Build a Better World*  
(CAPSTONE PAPER)

Masters of Management Co-ops and Credit Unions  
Sobey School of Business, Saint Mary's University.

April 2014

[theholmteam.ca/HOLM.MMCCU.CAPSTONE.pdf](http://theholmteam.ca/HOLM.MMCCU.CAPSTONE.pdf)

Premise of my  
Capstone:

Building a better  
toolbox is needed  
to deliver this  
vision:

THE BRIGHTER DAY.



"But crown her Queen,  
And Equity shall usher in  
For those who build,  
And those who spin,  
And those the grain who garner in,  
A BRIGHTER DAY."

[From the  
"Co-operative News,"

**OCFAID:  
a simple but  
powerful tool to  
diagnose financial  
health**

# DIAGNOSING HEALTH...





# OCFAID IS “THE STETHOSCOPE”

- OCFAID methodology was developed by Professor Alan Robb, University of Canterbury, New Zealand
- Considers **both PROFITABILITY AND LIQUIDITY**
- Based on (Professor Tom) Lee “Dictum “
  - *The ultimate bottom line in business is not profit, it is the ability to earn a profit on a transaction and turn it into cash and do this repeatedly.*
- More information on OCFAID analysis  
[www.alanrobb.coop](http://www.alanrobb.coop)



# OCFAID ANALYSIS

- **Operating Cash Flow After Interest & Distribution.**
- **Plotted graphically against Retained Earnings**
- **Both on a cumulative basis**
- **If major change in governance, management or operations, new cumulative graph is commenced**

# OVERVIEW

**OCFAID:** two simple lines on a graph

**OCFAID:** transparent window into the inner financial health of the co-operative.

**OCFAID:** enhances member participation by providing every member with essential information

**OCFAID:** enhances ICA Blueprint goals of both participation *and* financial sustainability

**OCFAID:** levels the playing field between Board and Management, reducing the risk of agency failure.



# OCFAID – 5 CLEAR SCENARIOS

- STAR (both OCFAID and RE are rising cumulatively)
- PROBLEM CHILD (RE is rising but OCFAID is declining)
- CASH COW (RE is declining but OCFAID is rising)
- DOG (both OCFAID and RE are declining)
- TURNAROUND (Both measures, usually under a receiver or a change manager, are neutral as the nature of the entity is reconfigured)

# OCFAID CASE STUDY: DAIRYLAND

*this OCFAID analysis of  
the 1982-2001 Financial Statements of  
Dairyland/Dairyworld/Agrifoods International*

*was inspired by  
and undertaken with the support of*

*Professor Alan Robb  
Saint Mary's University, Halifax  
and  
University of Canterbury, New Zealand*



## HISTORY OF DAIRYLAND

- **1917**
  - Feb 16<sup>th</sup> Fraser Valley Milk Producers Cooperative
    - 90% of BC Lower Mainland Dairy Farmers
- **1920**
  - 2 Processing plants and a condensing plant
- **1925**
  - Add butter, powdered milk, cottage cheese plant
  - Shortly thereafter, ice cream plant

- **1982 Merger = FVMPCA:**

- FVMMPA (Fraser Valley Milk Producers Cooperative)

- SODICA (Shushwap-Okanagan Dairy Industries Coop Ass'n)



- **1985: David Coe becomes CEO**

- Strong CEO (Coe) + Strong Chair (Friesen)**

- “We had a CEO who was good - just needed someone to stand on his head occasionally...” FVMMPA Director*

**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...”***

*“...Our Chair at the time was strong and could do it (stand on his head). And 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.”*

# Catalyst was cheese...

- In the 80's, Macdonalds Restaurants sourced cheese slices locally.
- Macdonalds announced it wanted to buy from only one Western Canada supplier,
- Dairy co-ops in BC, Alberta, Saskatchewan and Manitoba decided they should find a way to collaborate to keep the Macdonald's market, opening the door to merger.
- Even with apparently common goals, predictable challenges arise when co-operatives merge membership. Geographic separation adds complexity. As do changes to governance structure.



- **July 12, 1992 Merger = DAIRYWORLD FOODS:**
  - FVMPCA
  - Northern Alberta Dairy Producers (NUMAID)
  - Central Alberta Dairy Pool (ALPHA)
  
- **1993 Merger**
  - Dufferin Employment Coop (MANCO) +3000 ees

## AS A RESULT OF THE 1992 MERGER

- **RETAINED:** BC as Head Office
- **DROPPED:** Strong board Chair (Peter Freisen, BC) replaced with less experienced Chair (AB)
- **Expansionist CEO has clear road.**

*“...this new Chair had a very different governance style; he was not prepared to lean on the CEO like his predecessor...”*

*“...And so the CEO basically ran the board, directors were kept in the dark and the membership did what the Board told them to do...”*

**Director**

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.

## AS A RESULT OF THE 1992 MERGER

- **DROPPED:** Regulation that members must approve new capital loans...
- **DROPPED:** Revolving check-off loan that provided equity
  - **PREVIOUSLY:** 1% of farm milk checks held back, modest interest, repaid 15 years; this provided coop with low cost capital (member equity)
  - **RESULT:** Drew down \$7-12 million in co-op capital in payout to members.
  -
- **Expansionist CEO has clear road.**

*“...the board knew this was not helpful,  
but the Chair wasn’t prepared to challenge the CEO,  
and so it went through...”*

*Director*

## **1993: HI-PROFILE RESIGNATION**

- Director and former Vice Chair John Van Dongen publically resigns from Board
- Cites case studies of US coop failures due to overly aggressive CEO's
- Tells Delegates he “has many concerns but can't get the support of his Board...”

## LATE 90's: MERGERS AND ACQUISITIONS

- **1996 Merger - AGRIFOODS INTERNATIONAL**
  - Dairyworld Foods
  - Dairy Producers Coop Ltd (DPCL) Saskatchewan
  - 2,100 shippers, sales of \$1.13 billion
- **1997**
  - Ice cream division sold to Nestle



## Late 90's: merger talks with Agropur

fail on 2 issues:

- **Governance:**
  - Agropur wanted 14/10 board split
  - Agrifood wanted 12/12
- **Management**
  - Each wanted their own CEO to take helm

**1998:** “accelerated efforts to position as a national supplier”

– **Expansion to Eastern Canada**

- **Baxter Dairies (Maritimes)**
- **Ontario processing plants**
- **McCain Refrigerated Foods**
- **Joint interest in Pascobel**
- **Partnership agreement**
  - **NURTINOR and AGRODOR**

– **CFO** Cliff Denney resigns amidst suggestions he was “pushed”

## 1998 AGM:

CEO David Coe, brandishing a balance sheet showing assets of \$513 million and sales of \$1.2 billion, tells delegates how “immensely proud” he was of this “substantial increase in sales and net earnings” that positioned the enterprise for a bright future.

The budget was approved by the Delegates.

## 1999 AGM:

- Announce a \$6 million loss (25% of member equity) from Ontario processing operations
- Members accuse CEO of operating outside their mandate to “process members milk”
- CEO justifies as “pre-emptive strike” to stop processors from coming West

## JANUARY 2001 AGM

- Sales of \$1.5 billion but.....
- BOARD ANNOUNCES to 120 DELEGATES
  - Royal Bank calling loans
  - Saputo has made an offer 50¢ on dollar
  - Board recommends acceptance

*“a few people knew a lot and many knew nothing. There had been no transparency. Company insiders were the only ones who had the full story. The board knew only what senior management told them and the delegates knew virtually nothing of what was going on....”*

**Member/Delegate. 2001 AGM:**

- **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, according to one farmer in attendance, “scared into accepting.”
- Between a rock and a hard place, 110 farmers - on the eve of their coops centenary - voted to sell the co-op’s assets and brand to Saputo.



- The co-op Agrifoods International retained the raw milk transport business and a yoghurt plant.
- Senior staff got healthy termination bonuses.
- *“No-one knew what was going on...Delegates were not kept up to date; there was no transparency... Basically, management destroyed the co-op and Saputo stole it for 50 cents on the dollar...”*

*2001 Delegate*

## SAPUTO:

- Since 2001, a number of small dairies across Canada were acquired and shut down by Saputo; two more Alberta plant closures were announced in May 2014.
- Today, Saputo is the third largest cheese maker in the US and one of the top 10 dairy processors in the world, generating about \$9.3 billion of annual sales and employing 13,000 people.

## SAPUTO:

- With plants in Canada, the US, and Argentina, Saputo just acquired Australian giant Warnambool Cheese and Butter after fierce and costly takeover battle with Australia's largest processor, dairy co-operative Murray Goulburn.
- Saputo is now eyeing acquisitions in Brazil and New Zealand.

**David Coe 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...to a national company with plants operating from coast to coast and selling its own national brands.*

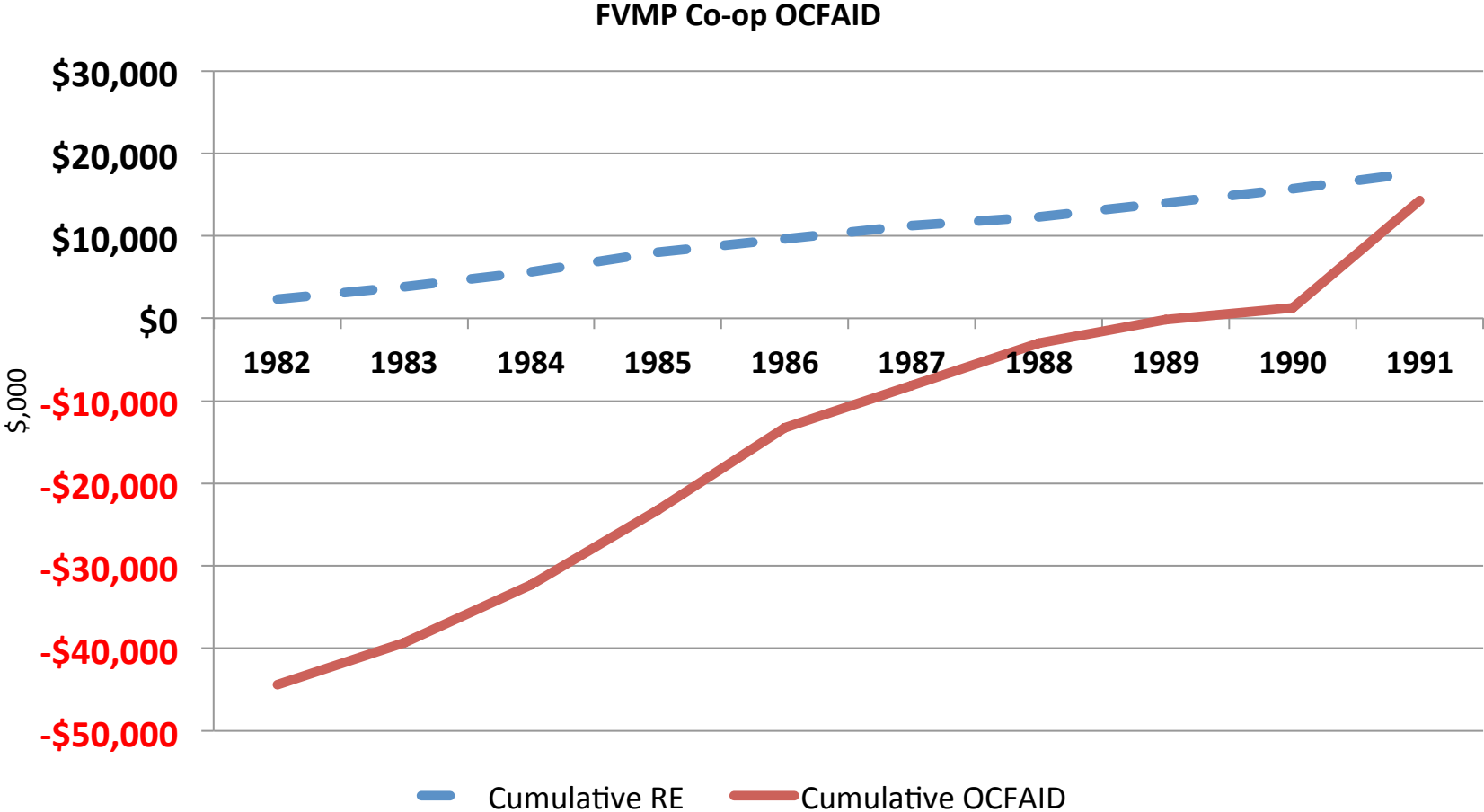
*During this period of unprecedented expansion, company revenues grew from \$180 million to more than \$1.7 billion, and productivity of the company's 3,400 employees increased five-fold on a per-worker basis.*

**COULD MEMBERS  
HAVE SAVED THEIR  
COOP?**

**QUESTION:**

**WOULD OCFAID ANALYSIS ON**  
**THE FRONT PAGE OF FINANCIAL**  
**STATEMENTS HAVE INCREASED**  
**TRANSPARENCY?**

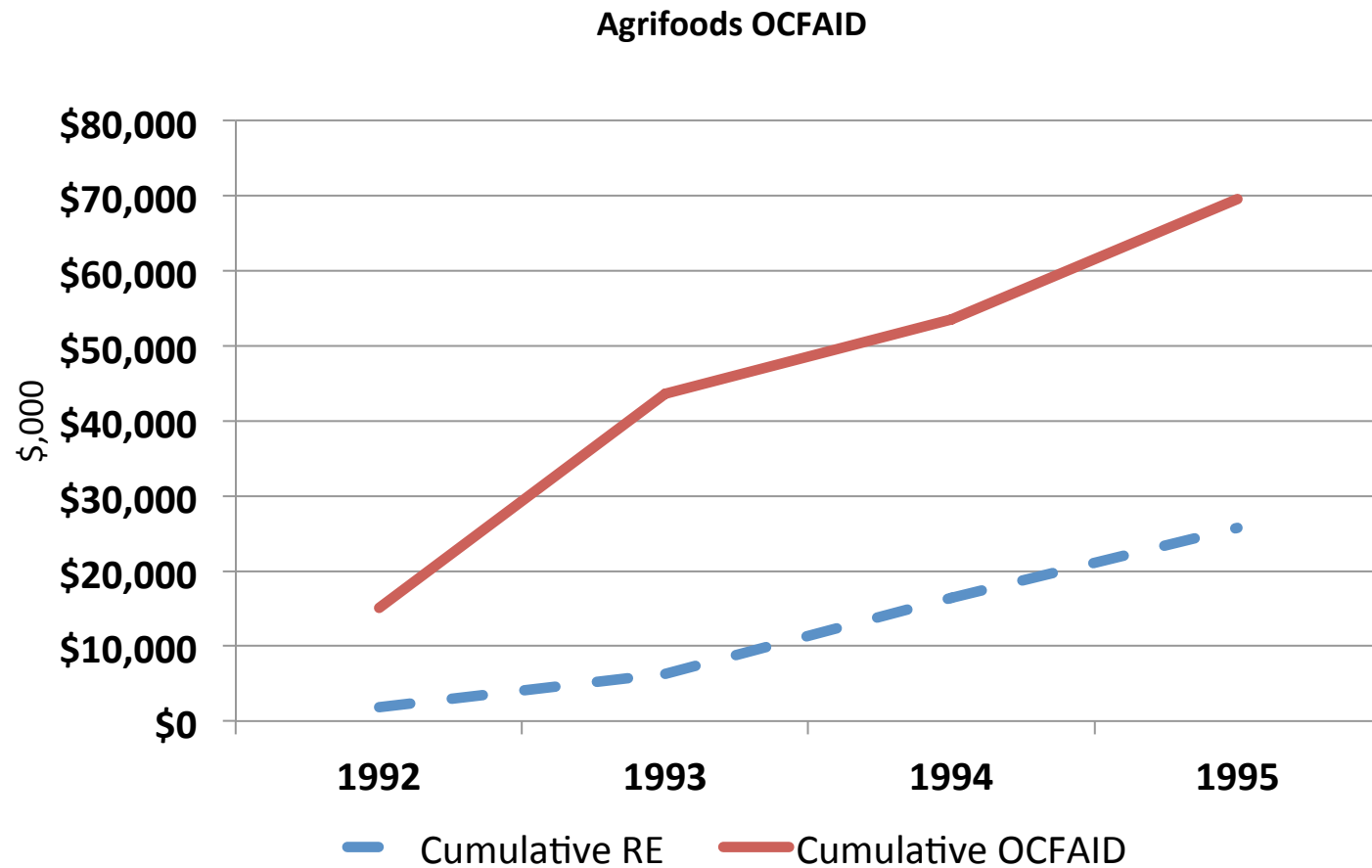
# FVMPCA OCFAID ANALYSIS 1982-1991\*



\* “...Very good trend after an initially poor year of amalgamation.”

# AGRIFOODS OCFAID ANALYSIS

## 1992-1995\*

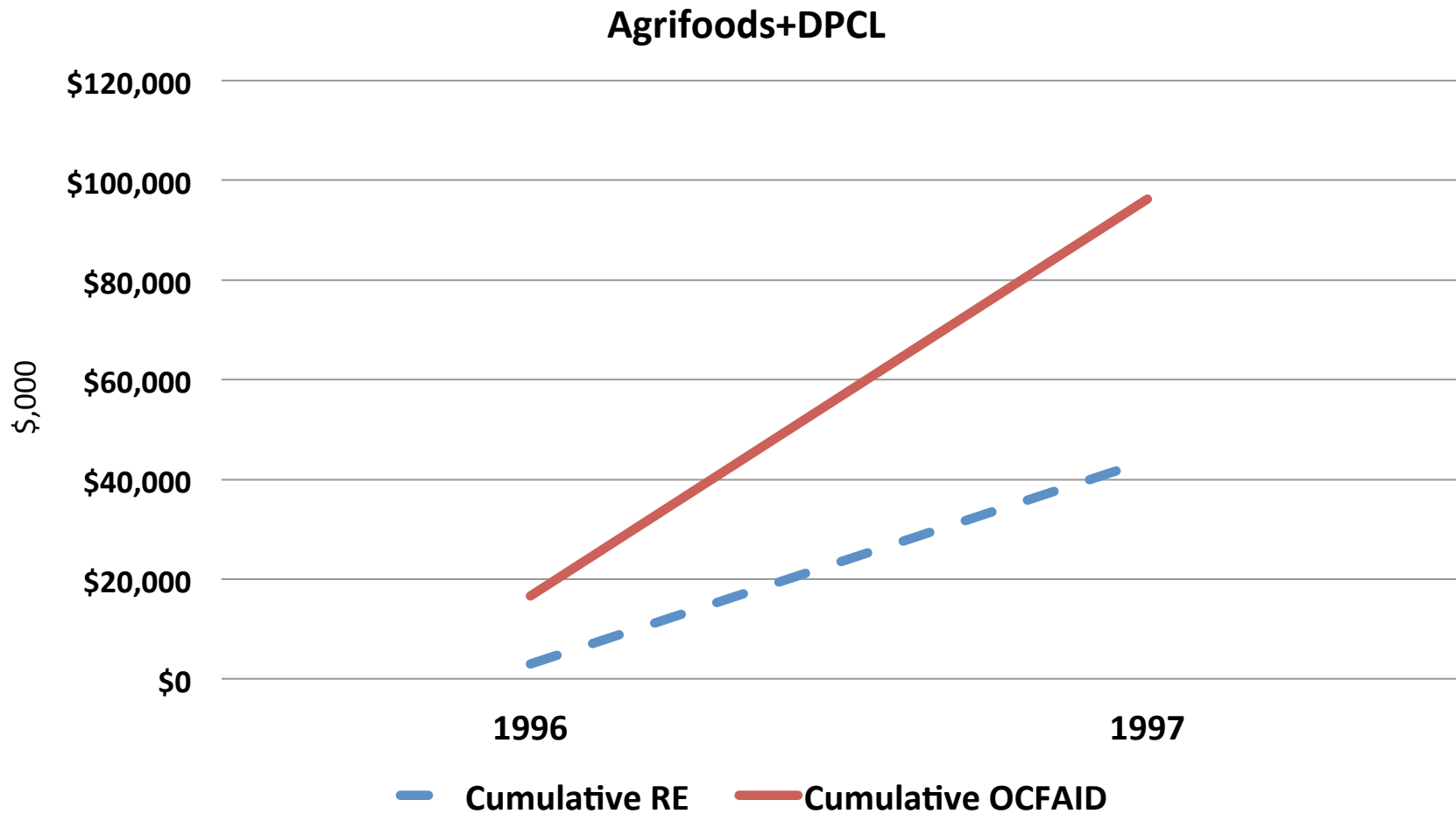


\* “...Healthy trajectory, even better than previous period...”



# AGRIFOODS OCFAID ANALYSIS

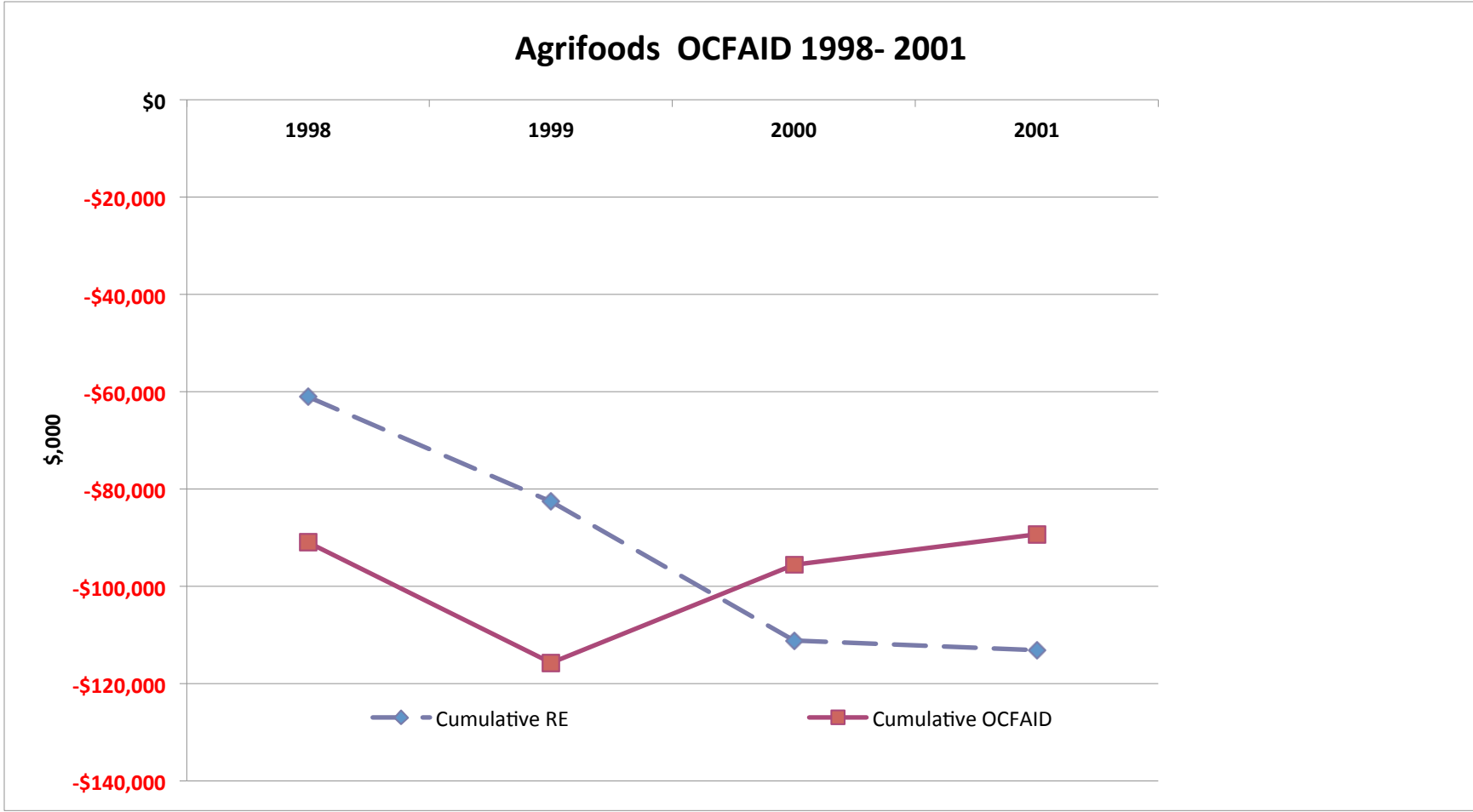
## 1996-1997\*



\* “...Again a successful merger for the members...”

# AGRIFOODS OCFAID ANALYSIS

## 1998-2001\*



# 1998

Goodwill comprised 50% ( \$43.8m of the \$84.2m) of net assets acquired from McCains

Goodwill and other intangibles comprised 79% (\$22.5m of the \$28.5m) of net assets of other acquisitions

The acquisitions were dependent on borrowed finance

- Long term debt rose 68% or \$73m
  - Current liabilities rose 55% or \$75m
- 
- Operating cash flows deteriorated and OCFAID became seriously negative due to the cash paid for intangibles

**DEBT EQUITY RATIO (external debt to members' equity )**

**1982: 1.5:1**

**1987: 1.3:1**

**1999: 2.9:1**

**RATIO OF INTANGIBLES TO MEMBERS' EQUITY AND MEMBERS' LOANS**

**1982: 3.3%**

**1997: 0.6%**

**1999: 66.4%**

**ALAN ROBB:**

***“...what a combination of bad strategies!”***

- high risk strategy quite unsuitable for a cooperative.***
- high external debt going into intangibles***

**IF OCFAID ANALYSIS HAD APPEARED  
REGULARLY ON THE FRONT PAGE OF  
FINANCIAL STATEMENTS:**

**Directors/Members would have had a clear  
window into operations of their coop...**

**Directors/Members would have had the  
evidence to demand external audit**

**Dairyland, a century-old cooperative, would  
likely still be alive and thriving today...**

When private sector firms fail, *no one questions capitalism...*

When coops fail, *the model is suspect...*

THE QUESTION is not:

WHY COOPS FAIL? *but rather*

HOW TO ENSURE THAT COOPS THRIVE?

**WE NEED TO BUILD A BETTER TOOLBOX**

**OCFAID SUPPORTS  
ICA BLUEPRINT GOALS**

**PARTICIPATION  
+  
SUSTAINABILITY**

[wendyholm.com/OCFAID.Croatia.pdf](http://wendyholm.com/OCFAID.Croatia.pdf)



*everyone is responsible  
for everything...*

Jose Maria  
Arizmendiarrieta

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And Equity shall usher in  
For those who build,  
And those who spin,  
And those the grain who garner in,  
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