Course Title

Student's Name

Family Farms vs Daily Cooperatives In New Zealand

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Introduction.

The dairy industry in New Zealand contributes about NZ$ 13 to 15 billion per annum which accounts for 8% of the country's GDP. The dairy industry is exclusively based on cattle. As of 2017, the country had a population of over 4.8 million dairy cows. The dairy industry produces 21 billion liters of milk which help in processing 1.8 billion kilograms of solid dairy products. The country contributes about 3% of the total amount of milk produced in the world (Harrison, 2019). In essence, New Zealand is listed among the top ten largest producers of milk and dairy products. New Zealand exports 95% of the total amount of milk produced in the country which translates to almost a third of the country's export earnings (Conforte, Garnevska, Kilgour, Locke & Scrimgeour, 2008). Some of the dairy product exports include milk powder, butter, cheese, infant formula and skim milk powder. Dairy farming takes place in the wet parts of New Zealand. Some of these areas include Westland, Waikato, Manawatu, Southland, Taranaki, Horowhenua and Northland among other areas. It is believed that natural factors like fertile soils, favorable terrain, temperate climate and abundant water have provided a conducive environment for dairy farming. The dairy industry has provided direct employment to over 40,000 people in the country (Harrison, 2019). In New Zealand, the dairy cooperatives and family farms have played a significant role in the dairy industry. This paper will compare and contrast family farms and dairy co-operative in New Zealand in terms of economic relations, cultural assumptions and power relationships.

The Dairy Co-operatives and Family Farms.

In 2001, there was a merger between the New Zealand Dairy Board and the country's largest dairy cooperatives i.e. Kiwi Cooperative Dairy and New Zealand Dairy Group. After the merger, a multinational dairy co-operative known as Fonterra Co-operative Group Limited was established. The co-operative is owned by over 10,500 farmers and produces about 30% of all the dairy exports in the world. These exports earn New Zealand approximately NZ $17.2 billion making it be the largest company in the country (Lodge, 2019). The New Zealand Dairy Board (NZDB) has been legislated by the government as a monopoly with exclusive right to market all the country's dairy product exports. Despite the fact that Fonterra dominates the dairy industry by processing 95% of the country's milk, it is important to note that there are other independent dairy co-operatives in New Zealand. They include Westland and Tatua. In addition, the family farms, especially in Southland, have contributed to dairy farming. Though dairy co-operatives like Fonterra have dominated the industry, some family firms like Wallace farming family and Colin & Dale Armer have continued with dairy farming in a bid to preserve their niche in the industry (Norgate, 2019). Due to the dominance of dairy co-operatives in the country, most of the sheep farms have been converted into dairy farms. However, family farms have continued with their farming.

The Economic Relations

The dairy sector in New Zealand has been converted to a deregulated sector from a regulated one. The market conditions have played a fundamental role in determining the organizational principles in the industry. The dairy co-operative has been processing 95% of the total milk in the country, while the family farms have been producing and processing the remaining 5%. The New Zealand dairy co-operatives have sales turnover of over NZ $ 20 billion especially from exporting the dairy products. On the other hand, family farms have sales turnover of about NZ$ 1 billion (Chalmers, 2018). The country has approximately 25,000 dairy cows under organic management with the New Zealand Dairy Co-operatives possessing 94% of these while the rest is managed by the family farms (Ohlsson & Nilsson, 2007). It is therefore evident that the New Zealand Dairy Co-operatives have been engaging large scale production, while the family farms do it on a small scale.

As earlier pointed out, deregulation of New Zealand's agriculture led to the growth of dairy farming. The formation of Fonterra in 2001 aggravated the conversion of the sheep farms to dairy farms, especially in Southland (Chalmers, 2018). Fonterra and other dairy cooperatives have been exporting almost all the dairy products in New Zealand. The government legislated NZDC as the only company with exclusive rights to export dairy products. Therefore, the company has been enjoying monopoly status in the exportation of these products. On the other hand, family farms have been struggling to export their dairy products. They have been forced to concentrate in the local New Zealand dairy market. Most of the sheep family farms have been forced to revert to dairy farming as well as join dairy cooperatives to enable market their products in the international market. It is important to note that Waikato, Canterbury and Southland are the three largest dairy sectors in New Zealand (Harrison, 2019). Except for the Southland sector, the other two have specialized in exportation of dairy products.

Fonterra and other dairy cooperatives have been exporting most of their products in the international market. Intense competition in the international dairy product markets has forced dairy firms to become more innovative to increase their sensitivity to the demands of the customers. The demand for customized dairy products ingredients and value-added dairy products has greatly increased. Consequently, dairy cooperatives have been forced to upgrade the quality of their products by producing value-added and customized dairy products to satisfy the international market. Customization and value-addition of dairy products usually increase the cost of production. Therefore the dairy cooperatives, especially Fonterra, has enough resources to facilitate such kind of production. On the other hand, most of the family farms might not have adequate resources to facilitate dairy products that are tailor-made or whose value has been added. Consequently, the family farms concentrate on the local market rather than exporting their products.

The dairy cooperatives, especially Fonterra has significantly reduced competition through mergers, acquisitions and joint ventures. The cooperatives have greatly reduced the cost production. As a matter of production, Fonterra is considered to be the leading supplier in low cost globally (Painter, 2007). Therefore, dairy cooperatives been enjoying high margins. The biggest cooperative, Fonterra is a price maker not only in New Zealand but also in the international markets. The cooperatives have been influencing the market prices of dairy products because they have the pricing power. On the other hand, the family farms are price takers, therefore, they have no pricing power and cannot impact the market prices of the dairy products.

Cultural assumptions.

There are four main objectives of dairy cooperatives in New Zealand: firstly, they want to invest and expand their investments in various countries. Secondly, they want to provide adequate information to their customers in a fast but efficient way. Thirdly, they want to create a credible global brand name. Lastly, they want to increase their margin to a level of creating a global business empire in dairy products (Ohlsson & Nilsson, 2007). The dairy cooperatives in New Zealand are considered to be traditional cooperatives. The cooperatives have many shareholders and they have heterogeneous membership. For instance, Fonterra Cooperative has approximately 13,000 shareholders (Mahpar, 2019). They also have open membership that allows both the New Zealanders and foreigners to join. The cooperatives' main structure is collective, however, they may have a few individual elements. The cooperatives get a huge amount of milk from the farmers. Consequently, they significantly reduce the cost of production. It is important to note that most of the dairy cooperatives have started to adopt some entrepreneurial traits to aid in increasing their value-added activities. Though the cooperatives are price makers, they do not use the market forces i.e. the law of demand and supply to set up the prices of their dairy products (Lodge, 2019). Due to their dominance in the market, the cooperatives have been using administrative procedures to determine the prices of dairy products in the local and international market. The cooperatives' shares are not transferrable. The dairy cooperative is governed by proportional governance rather than the traditional democratic administration of "one man, one vote". In essence, the cooperatives' voting rights are usually proportional to the volume of milk and dairy products that they supply to them. In addition, investments in the cooperatives are made by purchasing the shares that have nominal value. Evidently, these cooperatives have low entry barriers. However, Tatua has closed membership and the delivery rights are proportional to the supply entitlements. Consequently, Tatua has imposes higher entry barriers to members who might want to join the cooperative. The main motivation for dairy cooperatives is to make a profit. Lastly, the dairy payouts have been giving good milk payouts. Therefore, almost all stakeholders are able to enjoy good returns.

On the other hand, family farms have different cultural assumptions. Firstly, the farms are owned by families or individuals. In the case of succession, the farms are passed to other family members or sold to other interested parties. It is worth noting that most of the family farmers had to convert from sheep farming to dairy farming after the establishment of Fonterra because they needed to preserve the culture (Forney & Stock, 2019). Secondly, they are considered to be price takers. These farms contribute a small part of the dairy industry. Therefore, they can hardly influence or determine the prices of dairy products both at the local and international market. Thirdly, the family farms have reverted to intrinsic motivation since they find it hard to keep up with the dairy cooperatives. Lastly, the main reasons why family farms engage in dairy farming is to maintain New Zealand's culture as well as farm survival (Forney & Stock, 2019). It was a way of making sure that the New Zealanders maintained what was already in their possession. To enhance their profit margins, some New Zealand dairy farming families have been forced to diversify their investment holdings. For instance, DHL is owned by North Island dairy farms, Wallace and Colin & Dale Armer.

Power relationships

Technology and globalization have completely changed the business world. Most of the businesses want to do have adopted technology to help them to save money, save time, enhance efficiency and effectiveness as well as improve their bottom lines. Most companies have been forced to re-invent themselves so that they can compete favorably in the current world. In essence, they have been forced to do so by adopting two significant features: firstly, adopting cross-border integration as well as trade integration. Secondly, different firms have been forced to increase the fragmentation of their processes of production as well as evolving their internationally dispersed economic activities while keeping them functionally integrated (Evans, 2004).

The dairy cooperatives in New Zealand are considered to be the price makers. They usually influence the prices of dairy products in the market because of their monopolistic nature. They have been using their dominance to dictate the prices of dairy products. The other firms in the industry have been forced to adopt the prices which are manipulated by the dairy. In addition, dairy cooperatives have dominated the dairy industry through mergers and acquisitions. Consequently, the cooperatives have enjoyed a number of benefits. One of these benefits is that the cooperatives have been enjoying control and power in the dairy product markets. Secondly, after mergers and acquisitions have greatly reduced competition in local and some foreign markets (Norgate, 2019). Consequently, dairy cooperatives have significantly increased their market share. For instance, a deal between Fonterra and Bonlac Food in Australia has enabled the cooperative to penetrate the Australian dairy food market. Thirdly, the cooperatives have been enjoying a number of economies of scale. Some of these economies of scale include technical economies, organizational economies, financial economies and bulk-buying (Norgate, 2019). Fourthly, the mergers have helped the dairy cooperatives to diversify their products. For instance, most of the dairy cooperatives have been selling customized milk products. Lastly, the dairy cooperatives have been able to significantly reduce their operational costs as well as costs of production. These cooperatives control a great percentage of milk that is produced in New Zealand. Consequently, the cost of production tends to reduce by a significant amount thus increasing their profit margins.

On the other hand, family farming has limited power or influence over the price of dairy products. Family farms are considered to be price takers because they produce a little number of dairy products in local and foreign markets (Weir, 2008). They tend to rely on the prices that are already set by the cooperative societies. In addition, the family farms are supposed to offer standardized and quality products so that they can compete favorably with the dairy cooperatives. Furthermore, the family farms have not been able to enjoy economies of scale since most of them do their production on a smaller scale compared to the dairy cooperatives. Besides, most of the family farms have been forced to reduce the cost of production as well as the operational cost. Research has shown that most of the family farms are not good enough in employing people thus the employees are not happy to work in these farms (Painter, 2007). As a result, these farms encounter problems of integration, misunderstanding and resentment. These farms opt for cheap labor that they can afford. For example, most of these farms have been utilizing family labor rather than hiring laborers to work in these farms. Due to deregulation, the family farms can try to compete with the cooperatives.

Conclusion

It is evident that the dairy industry plays a fundamental role in the New Zealand economy. In addition, the processing and marketing of dairy products have been able to capture over 40 % of the dairy export market in the world (Ohlsson & Nilsson, 2007). Fonterra has played the biggest role in this market. Consequently, most of the dairy farmers in New Zealand have been able to accumulate remarkable their net worth since they have superior income compared to other average income earners in the country. The success in the New Zealand dairy industry is attributed to outstanding farm management and also the willingness to take most of the risks. However, it is important to note that some of the people who do family farming have not been able to enjoy such returns. After deregulation, the dairy industry in New Zealand has been operating in a free market that is highly competitive and no government subsidies. Fonterra, one of the dairy cooperatives in New Zealand has been able to capture over 40% of the dairy export market in the world (Mazzarol, 2012).

Fundamentally, deregulation of New Zealand's domestic dairy market did not have any significant organizational changes in the industry since the domestic market accounts for a little part of the sales of the country's dairy cooperatives (Painter, 2007). The domestic market is thus served by family farms. After the government decided to form Fonterra through a mega-merger, the cooperatives attained distinct organizational attributes. In addition, most of the sheep farmers reverted to dairy farming. Consequently, the merger played a fundamental role in the growth of the industry. Lastly, we can note that dairy cooperatives have adopted entrepreneurial traits in their organizational model. As a result, they have been working on the international market on their own.

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