"Herding the Cats"

Change Management in New Zealand Primary Industries

Mark Patterson
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TABLE OF CONTENTS

Contents

Forward

In February of 2013 I received an out of the blue phone call from a fellow sheep and beef farmer whom I had never met. His name was Richard Young and he was organising a meeting of like minded farmers to discuss the issues around the dire state of the red meat sector. The attendance and subsequent outcome of that meeting was the formation of Meat Industry Excellence (MIE) for which I was to be a foundation member and Richard Young, himself a Kellogg Scholar, was to be our inaugural chairman. That meeting in many ways changed my life and has led to me, quite incidentally, being at the forefront of the current attempt to reform the red meat sector.

Along the way it has been an absolute privilege to meet and engage with many of the significant leaders of New Zealand primary industries both current and past and to share their wisdom and experience. The Kellogg's scholarship project has provided me with a guilt edged opportunity to leverage into their experiences particularly in regard their experiences in change management. What lessons can be learnt not only for myself in regard my on-going involvement with MIE but for other future primary industry change managers who may read this text.

This is a qualitative assessment as opposed to a quantitative one. I have chosen a diverse range of case studies and deliberately concentrated on the "how" aspect. The who, what and why are required for context but my real interest is in the process of leadership required to deliver an outcome. I do not seek to judge what they did and indeed two of my examples were ultimately not successful in achieving their initial objectives. This was deliberate in regard are there any comparative themes that emerge between the successful and the ill fated?

How do you go from having a conceptual idea, as we did in Gore on that fateful evening in February 2013, to achieving an actual outcome? What is the secret to " Herding the Cats?"

Mark Patterson

6^{th} October 2014

Change Management

One of the constants of life is change. Change works against the forces of stability and routine for which people are inherently more comfortable.

Change management is a relatively new field of study and over recent years has evolved to create a more sophisticated analysis of the disciplines required for successful organisational change.

According to Authors V Nilakant and S Ramnaraywan in their book 'Change Management' published in 2006 only 30% of organisations that seek to execute major organisational change actually do so successfully.

According to the authors there are four elements of organisational change management:

APPRECIATING CHANGE

Assuming change is planned and not forced upon an organisation there are three key areas

- Recognising the need for change;
- Understanding the consequences of changing verses maintaining the status quo;
- Understanding what options and resources you have at your disposal.

MOBILISING OF SUPPORT:

There are two methods of implementing change. Imposed or through a process of active participation by stakeholders. The latter is considered to be by far the most desirable but also the more difficult to execute.

There are two components of organisational change.

- Getting consent. Typically 20% will be enthusiastic,20% against and the rest sitting on the fence.
- Politics. The need to identify key influencers to support and then gather critical mass.

EXECUTING CHANGE:

Almost always requires more time and resources than initially planned for.

BUILDING CHANGE CAPABILITY:

Putting strategies and processes in place that allow continual incremental change to develop so that the need for major adjustments in the future are less necessary.

The one constant that sits over the above steps is leadership. Change leadership requires a complex understanding of people and processes to get successful outcomes.


Appreciating change
Mobilising support
Leadership
Building change capability
Executing Change

Figure 1

Executive Summary

- While the case studies comprise only a snapshot of the evolving nature of New Zealand primary industries there are some common themes observed by the author.
- Change management across large sections of an entire industry is very difficult;
- Strategy before structure;
- Structure tends to favour scale and an integration of supply chains;
- Doing it small piece at a time as opposed to big bang appears much more effective;
- Change requires time;
- Be clear of the strategy and structure required from inception and get the details agreed early;
- Leaders need courage, a total belief in the underlying proposition;
- Talk, talk, talk with stakeholders.
- Priorities Boards, Farmers, Government;
- Government needs to be informed but the lesser the reliance on them for outcome the better.
- Governments will do what farmers want as demonstrated via a vote;
- Change needs to be driven top down but is much more likely to succeed if mood for change is coming from a broad base of stakeholders;
- Getting the right people in place to execute the desired change is critical;
- Farmer ownership and control seen as highly desirable;
- Achieving consolidation much easier than the execution;
- It will take longer than thought to get the full benefits;
- Very hard on the individuals involved and their families.

Example One - The Creation of Fonterra

Background

The New Zealand Dairy Industry had operated under the model of a single seller in the form of the New Zealand Dairy Board since the enactment of the Dairy Produce Export Control Act of 1923. The intention to give producers combined strength to smooth the volatility of pricing through greater market presence and to control shipping costs through economies of scale. This arrangement worked well but as the contributing manufacturing co-operatives supplying product merged and acquired scale and as product mixes became every more sophisticated so did the tensions around the Dairy Board boardroom table.

Additionally in the Mid 1990's the then National Government led initially by Jim Bolger signalled an intent to deregulate the producer boards in line with the free market ideology of the day. That move gathered pace with Jenny Shipleys ascension to Prime Minister with John Luxton as Minister of Agriculture and in June 1998 the Government announced that all remaining statutory producer boards present plans for deregulation by November of that year. This essentially turbo charged the direction that the industry had been heading and while that deadline was to pass the die was cast. There was a necessity for industry leadership to drive change for their own benefit rather than having it forced upon them.

In 1999, a working group was formed and identified two options. Firstly a two co-op model with one either assuming the assets and marketing capability of the Dairy board or alternatively dividing them up and secondly a mega company comprising all the willing of the remaining eight co-operatives. Tatua and Westland Dairy Co-operative opted to remain separate. McKinseys was commissioned to provide a report which showed a $300 million advantage for the mega co-op model were endorsed by the chairmen of the participating companies. The Dairy Industry Restructuring Act was subsequently passed through parliament but the mega merger was to be initially turned down by Commerce Commission.

The election of the Helen Clark led Labour Government in late 1999 breathed new life into the proposal and merger negotiations between the now remaining two large co-ops, New Zealand Dairy Group and Kiwi Dairy Co-operative, were again underway and the terms of a pro forma merger agreement were signed in December 2000 proposing the companies coming together on equal financial terms incorporating the Dairy Board into the new entity. The government for its part waived the requirement of Commerce Commission approval although imposed regulation to require supply competing local market companies to protect consumers and enable competitor start ups. In June of 2001 86% of Dairy Group farmers and 83% of Kiwi farmers endorsed the deal. 14000 dairy farmers had come together to form a company with an $8 billion turnover,18000 employees in 120 different countries, and in control of 30% of the worlds tradable milk products. Fonterra had been created.

The Change Managers:

John Roadley - Fonterra’s first Chairman

John Roadley

First elected to the Temuka Dairy Co operative board in 1988.
Led several mergers to create the South Island Dairy Co-operative.

Late in 1998 John Roadley deliberately led his South Island Dairy Cooperative, itself a product of several mergers, into merger with Waikato based New Zealand Dairy Group. He did so deliberately with an eye to the future with the knowledge that it would create an imbalance of power between New Zealand Dairy Group and it fierce Taranaki rival Kiwi Dairy Cooperative. With Dairy Group now controlling 58% of supply and Kiwi at 38% he reasoned Kiwi were more likely to come to the table to create his desired single co-op model to replace the Dairy Board.

John Roadley subsequently went onto the board of Dairy Group and was directly involved in negotiations with Kiwi. As a result of an impasse over the chairmanship of the proposed mega company between the chairs of the two existing Co-ops he became the preferred candidate and while initially reluctant was duly appointed Fonterra’s inaugural chairman.

Q&A

Questions in italics:

JR (John Roadley)

Strategy before structure?

JR-”Yes at a high level although it tends to be consultant speak”.

When does Strategy become about structure?

JR- “ With the government intent on scrapping the producer boards and the fact that we had a historical single seller arrangement our tails were essentially tied together anyway.”

Why did you want a single company structure?

JR- “There was widespread support for the single seller and I had become convinced over a long period of time that is where the industry needed to go. Under the dairy board structure their was a disconnect between manufacturing and marketing which often led to a misallocation of capital. The manufacturing co-ops could only gain value by controlling costs and were forced to double guess the dairy boards preferred product mix which led to gaming the system”

Who were the main instigators?

JR- Progressive farmer directors led the way with the encouragement of Dairy Board chairman Sir Dryden Spring who had been a long time proponent of a one company model. We had support from the 'higher breeding index farmers' who just told us to get on with it. Smaller companies without economies of scale were more motivated that the larger ones."

How did you go from having the concept to bringing it to fruition?

What were the initial steps?

JR- "Four chairman of smaller co-ops (Northland, Bay of Plenty, Alpine and Tui) originally commissioned a report by the Boston Consulting Group that showed benefits of $350-400m in a one company model. We used that figure to pressure the bigger companies that for every day that they didn't act farmers were losing $1m".

What examples either domestically or internationally did you look to?

JR-" In the dairy board New Zealand had a pretty unique model although we did look at the Danish co-op Arla".

How did management respond to pending change?

JR-" No good professional manager would ever put themselves before the greater good, even against self interest. Mostly they back themselves to be involved which is of course not always possible. People instinctively don't like change unless they are in control"

What level of outside expertise did you engage?

JR-" We engaged nearly every available professional advisor you could name, it cost us a fortune but you have to do it. Ultimately Consultants can prove anything you want them to but feasibility studies are necessary to build a base case and appease road blockers"

What priorities did you identify?

JR-" There are always only five key issues.

What's the share structure/valuation.
Who's the Chairman
Who's the CEO
Where's the Head Office
What's the Name."

How and when did you engage your farmers?

JR- "As early as practicable. We had a huge amount of shed meetings to tell farmers where we wanted to go. Initially keep it big picture, bulldoze through the detail and be prepared to win few friends. You need to keep your farmers informed, you need to talk, talk, talk! Farmers don't care what colour the tanker is pulling up the driveway they just care that it does and it delivers the most money to them. In

the end the final merger documents had a mass of detail and we had huge meetings.
How did you engage with Government?

JR-" The National Government had been pushing to remove the producer boards so they had been a part driver. Treasury had a neo liberal agenda and was dead against producer boards. Governments want to know what level of support you have from your farmers and are swayed heavily by farmer votes of support. The incoming Labour Government was much more philosophically aligned with Helen Clark herself being hugely supportive. Government support to waiver the Commerce Commission requirement was pivotal after it had failed previously."

How did you priorities other stakeholders i.e. banks and unions?

JR-" Kept them informed but as we were a fast growth industry anyway, they were generally supportive throughout. Employed lobbyists to take care of those relationships"

How did you break impasses along the way?

JR-"There is no blueprint to breaking impasse. You need to be totally convinced and confident of your own position and understand the detail. Don't get too concerned about fiduciary responsibility if you are honest and confident in your position there will be no backlash. A difficult marriage was easier than a difficult divorce. If you were being blocked by reluctant directors you had to make sure there were progressive directors standing at the next election. You can always find reasons why not to proceed, you need courage. "

Is there a danger that you become so convinced about your own position that you become blind to reality?

JR-"Yes. I always used trusted people outside the process as a touchstone to go back to and keep me grounded. Sometimes you get so bogged down in the detail of the deal you sometimes cant see the wood for the trees. Ultimately the farmers were telling us to get the job done!"

The Outcome:

Having achieved the creation of Fonterra how did you deal with disaffected parties?

JR-" There is no room for emotion the decision is made, you either get on the bus or get left behind"

Has the outcome matched expectations?

JR-" Yes. The process took longer than the case studies showed. The was a lot of executive change and it took awhile for cultures to adapt. It probably took 7 to 8 years to fully hit its straps"

How do you measure that success?

JR-" The growth of the company and its presence in world markets. Volatility will always be there but it has greatly increased its capability of value added products. The co-op structure is not necessarily compatible with the high growth model as there are pressures to maximise farm gate payout over the long term allocation of capital. I question whether the recent hybridization will be in long term best interests as it is often proven to be the start of a slippery slope that will probably be felt by the next generation."

With hindsight would you do anything differently?

JR-" I probably wouldn't have started! Very hard on your personal life with enormous stresses and not financially well rewarded. Bits and bobs but wouldn't change things dramatically. Have satisfaction about the final outcome and was honoured to receive an honorary doctorate of commerce from Lincoln University and received a Member of the New Zealand Order of Merit(MNZM) medal in the honours list.

Any advice for change managers of the future?

JR-"Every cause needs a champion and I decided early on that I was going to be it. Believe, have courage of your convictions and don't allow naysayers to stall for time."

Sir Henry Van der Heyden Fonterra's Second Chairman

Elected to the New Zealand Dairy Group board 1989
Became Dairy Group Chairman 1998

Sir Henry Van der Hayden led Dairy Group in merger negotiations with Kiwi. His vision was a fully integrated supply chain with scale. To this day he contends that Dairy Group was worth more than Kiwi but the bigger prize and getting the right people in governance positions were ultimately compromises worth making. He he was personally endorsed by John Roadley to be his successor for Fonterra's chairmanship for which he assumed in August of 2002 and filled until 2012.

Henry Van der Heyden (HVH)

Strategy before structure?

HVH: "It tended to be an interactive process where as the strategy evolves structure becomes part of the conversation."

Why did the strategy evolve as it did?

HVH: "The Government with Winston Peters as Treasurer was signalling the end of the producer board statutory regulations.

At the time there were mergers everywhere and the dairy board had become dysfunctional. There were two options the two company model and the one mega company.

I didn't have any preconceived personal preference but the dairy board was like a religion and there was widespread support for a single seller.

The Dairy Board didn't have any direct relationship with the farmers and we needed integrate our supply chain.

We didn't want the Government to dictate terms,. We decided early on that we wanted to be in control of our own destiny and drive it ourselves. Although we eventually did need support from the Government when the Commerce Commission turned us down."

Who were the main instigators?

HVH: " Management didn't want it. Farmers wanted it and but didn't have a pathway. It had to be driven by the boards who as a whole were reluctant.

The chairman needed to buy into it and have a couple of other supporters around the board..

Management see self interest but you need to identify the key guys and handcuff them in."

How did you go about executing the vision?

What were the initial steps?

HVH:" The joint venture between Kiwi and Dairy Group was the first step but nothing eventuated. It was obvious that the only way forward was to merge all the parties"

What priorities did you identify?

HVH:" We changed a lot of directors at the Dairy Board, there were 37 over a three year period on a board that comprised 11 people".

What overseas or domestic examples did you look too?

HVH:" Arla in Denmark was an good example and the British Milk Marketing board was also effective until Margaret Thatcher disestablished it. In the Dairy Board we had an entity that already had a global view so there wasn't much need to look too far".

How did you engage with your farmers?

HVH:" We kept farmer well informed at a high level. Lots of shed meetings. There were 10 to 15 different factions. There was no email's just a monthly newsletter and contact with key farmer influencers.

What priority did you give other stakeholders ie banks, unions, industry good bodies?

HVH:" Don't worry about other stakeholders total focus must be on three key areas: Boards , farmers and government. The rest is just noise".

How and at what level did you engage with government?

HVH:" Government had initiated the process and there was constant dialogue. Dryden Spring and Jim Bolger would have talked everyday at one point.

Ultimately if we had wanted to hunker down with farmer support like the Kiwifruit authority we could have kept our single seller status but we didn't want the risk or uncertainty"

What level of outside expertise did you engage?

HVH:"We used McKinseys because of their international experience. Its important that they don't lead the process they are there to support the outcome that you require.

Brenda Baldwin of BBG also played a pivotal role in stakeholder management. We did lots of polling to assess farmer opinion"

How did you break any impasse encountered?

HVH:" You have to just keep coming back. Work out what the hot button issues are for the others and use that. Farmer feedback was strong which pushed things along. Farmers will always have the final say with their vote.

Farmer thought we were giving Dairy Group away, and we were worth more than Kiwi, but there was $300 million on the table so from a fiduciary responsibility viewpoint doing nothing was worse. In the end we traded that value for the more important long term gain of getting the right chairman and board in place from the outset."

We had a plan to get every farmer to vote to get full buy in.

Important to respect those people that have a different view"

Outcome:

How did the outcome play out?

HVH:"The merger was much easier that the execution, we needed to clean out anyone who was not completely on side".

Are you satisfied the results have lived up to expectations?

HVH:" Completely satisfied we got it right, the fundamentals have been achieved. New Zealand dairy farmers are now the wealthiest in the world.....No doubt!

With hindsight what would you have done differently?

HVH:"Relied on too much advice from McKinsey's and probably should have had an experienced change manager as first CEO but hard to know with any certainty at the time"

Any advice for future change managers?

HVH: "Fear of failure is a powerful motivator.

You need to fundamentally believe your vision.

Understanding of risk provides the counter balance.

Footnote

Sir Henry Van der Heyden was knighted for services to the New Zealand dairy industry.

Today

Fonterra Processes
87% of New Zealand's milk (17 million litres.)
18% of Australia's milk.
23% of Chile's milk.
Responsible for 22% of New Zealand's merchandise trade.
Turnover 2013/14 $22.3 billion.

EXAMPLE TWO - WOOL PARTNERS CO-OPERATIVE

Example two: Wool Partners Co-operative

Background

In 2002 the New Zealand Wool Board was disestablished as recommended by the 1999 McKinsey report.

Sheepco was established to attend to the industry good activities of the Wool Board which then merged with the Meat Board to form Meat and Wool New Zealand in 2004.

In 2005 a joint venture between the Government and Meat and Wool New Zealand was formed to investigate options for the strong wool industry due to sliding returns. Wool Industry Network (WIN) was formed and in 2007 the "Catalyst for change" paper was produced which called for a more co-ordinated and market focussed approach.

Wool Grower Holdings (WGH) was established as a commercial vehicle to invest in wool assets beyond the farm gate.

In 2008 WGH and PGG Wrightson (PGW) established Wool Partner International(WPI) a joint venture PGW where it advanced WGH funds to purchase 50% of its strong wool business but retained only 40% of the voting rights.

The Wool Partners Co-operative(WPC) proposal was floated October of 2010 to allow farmers to purchase 100% of WPI.

In addition to the prospectus the directors were concurrently negotiating with other substantial wool entities Elders Primary Wool (EPW) and Wool Services International (WSI). Some of the money raised was to go into purchasing their assets but the directors were unable to disclose this directly to investors for fear of breaching the Financial Markets Authority(FMA) act. It is only possible to raise money through registered prospectus for activities you are proposing not ones that you might be.

The proposal met staunch opposition from existing wool merchants as represented by the Wool Merchants Association and the wool exporters as represented by the Wool Exporters Council.

The Change Managers:

Jeff Grant - Chairman

Southland Farmer.

Former Chair of Meat and Wool NZ.

Former National Party MP Awarua (1987-1993)

Jeff Grant was approached to Chair the Wool Co-op proposal in October of 2009. By that stage there had been on-going dialogue between WGH,WPI, WSI and EPW about consolidation of the wool industry.

JG (Jeff Grant)

What was the proposal?

JG:" A 100% farmer owned co operative to handle at least 50% (65 million kgs) of New Zealand's strong wool. I was comfortable with a mix of farmer and cooperate money but the decision had been made to go 100% farmer owned.

Subscription was to be valued at $1 per share with holding required 1 share for every kg of greasy wool produced and that came with a commitment to supply a minimum of 80% of that volume of wool annually for five years.

We wanted to gain market strength, allow for further consolidation and give farmers access to capturing further value beyond the farm gate. It allowed for better branding support and market development.

Co-operatives tend to be capital constrained so we were determined that we needed plenty in reserve to allow us to survive the inevitable procurement tension that would ensue. The commitment of the wool was actually more important than the money."

Strategy before structure?

JG:" Yes. Having agreed on a strategy ie what you want to achieve and how much capital required etc then structure becomes part of the conversation."

What was the main catalyst/driver?

JG:" There had been continual debate driven by poor returns and it was obvious the status quo couldn't continue. Agriculture in NZ works best when the per kg prices for the major pastoral commodities are roughly balanced ie lamb, milk,beef and wool".

Who were the main instigators?

JG:" Government and Meat and Wool NZ initially through initiating the Wool Industry Network (WIN) but subsequently drivers were people within the boards of WGH, WPI, EPW and also the then Minister of Agriculture David Carter who formed the wool industry taskforce"

There had been some polling done to suggest it thought a good idea by farmers. The pastoral management group, an influential group of large farmers, were keen as well as some leading stud sheep breeders and farm consultants a sort of loose coalition if you will."

How did you go from initial proposal to final outcome?

What were the initial steps?

JG:" The first 12 months were working through the proposal. We were advanced $250k from PGW to develop prospectus.

We had a stakeholder group of generally supportive farmers who we tested everything against to see what they would look at. We also undertook general polling.

Looking back' we put too much emphasis on the qualitative analysis with a stakeholder group who were predisposed to supporting the concept and too much weight on the quantitative analysis with the polling as it tended to reflect the generally positive statements that were made within the questions".

What priorities did you identify?

JG:" We put huge effort into communicating with selected farm accountants, farm consultants and head rural bankers, industry good bodies etc. They had good networks and we met with them maybe 4-5 times each. The Exporter Council and Wool Merchants association we probably kept informed too much. And we met regularly with the primary production select committee and the National Party agricultural caucus. We built a database and had numerous conference calls with stakeholders like accountants etc. We took the attitude that we wanted everyone to be well informed so there was less chance of ill informed commentary going around."

What other examples domestic or international did you look too?

JG:"We looked at what Merino NZ had managed to do for the fine wool sector".

How did you initially engage with farmers?

JG:" We had a target to meet with 5000 growers. We needed about 6000 to commit. We held about 100 grower meetings."

How did you prioritise other stakeholders?

JG:" The Wool Merchants Association and Wool Exporters Council were vested interests who did everything they could to undermine our proposal. They used their databases via an anonymous third party to spread misinformation. We hired a forensic scientist to prove our assumption and took legal advice but it was very hard to counter. At one point we had more money being withdrawn than deposited by farmers who had been scared off by the prospect of losing their deposit which was completely unfounded. The irony being that while they were undermining us some of them were secretly engaged with us over becoming involved.

Coincidentally at the same time the price of wool rose which was as a result of them spreading nervousness amongst their customers that if the float succeeded the co-op might be in a position to manipulate the supply."

At what point and what level did you engage with government?

JG:" The concept had evolved from a Government backed report initially with Jim Anderton as Minister of Agriculture. His successor in the National Government David Carter had been supportive and also publically endorsed us by announcing in his capacity as a wool grower he would be buying shares.

We didn't require direct Government assistance in the form of regulation or Commerce Commission waiver. From my experience if you can do anything without Government assistance it is much easier. With Government involved it becomes much messier. Ultimately governments will back whatever farmers want. "

What level of outside expertise did you engage?

JG:"We used Price Waterhouse Coopers (PWC) for producing the prospectus, mainly because of the expertise they had in their Christchurch office and Buddle Findlay especially for the legal stuff around negotiating FMA requirements. We didn't use PR firms we wrote all our own press releases."

How did you break any impasse?

JG:" In the initial stages when we were negotiating with EPW and WSI while conceptually supportive ultimately there was nothing in it for the lead players. Essentially there would have been dilution of their control from 100% of their existing entity to being 20% of a much larger one so self interest played a part even though it was in the best interests of the industry as a whole. Unhelpfully there were some deep seated personal issues between the main players . You can do what you like but you cant make two people get married if one doesn't want too." We did get a heads of agreement but in the end PGW was the only one who would officially come to the table. This caused us problems because 50% of the target market had never dealt with them before and 20-30% never would.

The wool merchants and exporters were a constant headache as they sore themselves being cut out. Some of them saw the bigger picture and attempted to get on board while publically rejecting us. What you see in the public arena is not necessarily reflect private positions.

In general throughout this whole process I have never been involved in anything so vitriolic."

Outcome:

JG:"We ended up raising $39 million after extending prospectus twice. We also dropped the minimum level to $55 million.

I pulled the pin at that point. I wasn't prepared to go back to market without EPW officially coming on board.

Coincidentally the price of wool fell soon after.

I believe it was a missed opportunity. I strongly believed it would have worked and have seen nothing as good since. It would have taken the fluctuations out of the market and more offered stability. There is a need to reposition wool which now has only 2% of the world flooring market.
It would have taken about a 3 to 5 year time frame".

In hindsight was there anything you would have done differently?

JG:" Never lose sight of your founding principles which in our case was about consolidation around a Co-op which we compromised along the way. If we had have been able to tell the whole story about the other talks that were going on it would have been much easier.

We should have done it the other way around. We tried to get the money then go back and buy the assets we should have got commitment of the required assets first."

Advice for aspiring change managers of the future?

JG:" Change is always difficult and every circumstance is different.

If you cant convince your colleagues of the merit of your proposal there is no chance of convincing the wider public.

It will require compromise and will only ever be the optimal outcome not the perfect one."

Mark Shadbolt - Deputy Chairman

Mark was deputy Chairman of Wool Partners Co-op. He farms on Banks Peninsula and was a director of both WPI and WGH. His original involvement came through establishing a Banks Peninsula wool growers co-operative to brand and market their own wool. Mark played a significant role in fronting farmer meetings.

Strategy before structure?

MS:" Yes. The strategy was around leveraging off the value of the existing Wools of New Zealand (WONZ) brand and strategy."

When does strategy become structure?

MS:"Much of the work around structure was done by WIN and favoured the Fonterra model."

What was the catalyst/key driver?

MS:" Completely unsustainable returns for wool and overall poor profitability had led to a group of Banks Peninsula farmers investigating ways of lifting returns around branding and getting closer to the customer. We realised that we needed more scale and that our strategy aligned with WPI's, which in turn was a result of the work done by WIN.

How did you go from initial proposal to final outcome?

What were the initial steps?

MS:" Getting a valuation of PGW's assets, we had committed to buy exporter Bloch and Behrens and WONZ both of which were owned by PGW."

What priorities did you identify?

MS:" Getting the prospectus finalised which took about 5 months to get right. 100% grower ownership and being fully capitalised so as to be resilient to strong competition during establishment phase."

What other existing example domestic or international did you look to?

MS:" WIN had favoured the Fonterra model from a structural perspective looking for scale. We knew we needed at least 50% of the clip to materially influence the market. We looked to Merino NZ from a marketing viewpoint."

How did you engage with your farmers?

MS:" Once we had the prospectus sorted we went to all corners of the country, including the Chatham Islands, with about 45 farmer meetings. Subsequently we had to adjust the prospectus and do it all again. We also had a group of key influencers who we worked with to guide us in drafting the prospectus. .

We operated a 'no bullshit rule'. Farmers hate 'bullshit'. Stick to the facts, outline the opportunities, stick to the key points and nothing fancy. Less is best. There are no magic formula's.

We also used third parties as much as possible in the form of customers who were concerned about shrinking supply and could see the need for growers to get a sustainable return."

What level of outside expertise did you use?

MS:"We wrote most of the prospectus ourselves with legal help obviously. It took about 5 months for 5 of us almost full time. We also did our own media releases and PR. We started with an Auckland outfit but the costs were prohibitive and we felt it was more authentic coming from us."

How did you set about breaking impasse?

MS:" We had opponents who were antagonistic to us and sort to undermine us from a distance. You need to be dealing with these things pro actively and face to face where possible. We tried to get them to give us the opportunity to let the growers make an informed decision via being fairly communicated with. You win respect by sticking to it not going away and continuing to push your case over time."

Outcome:

Given you were ultimately unsuccessful what would you have done differently?

MS:" We should have looked harder from the start at what the strategy was. What was it that was really needed to get the growers committing their supply and getting closer to the market. We didn't necessarily need $65m to achieve that. Probably the strategy coming down from WIN was too heavily influenced by bureaucrats. It needed more input from growers as to what was the best commercial strategy , structure and values a new entity needed to progress. Too much emphasis was placed on the 'broker model' and stuff that didn't add value.

We also needed to work more closely with the wider industry and have more consultation from the start. Unless you take the industry with you it is very hard going. Need to be more incremental, big bang is very hard."

What advice would you offer to primary industry change managers of the future?

MS:" Get everyone's views from the start and seek co-operation. Be prepared for the long haul, start small and build momentum through building a track record."

Footnote.

Mark Shadbolt is currently a director of Wools of New Zealand who have picked up the commercial pieces of the Wool Partners Co-op and are looking to build towards many of the original goals with investment and committed supply from over 700 farmer shareholders.

EXAMPLE THREE - "THE CONCEPT"

"The Concept" Alliance Group Ltd
80% model for the NZ Meat Industry.

Background

In 2007 the had been tentative talks between the southern meat co-ops Primary Producers Co-operative Society (PPCS) and Alliance Group ltd (AGL) around a possible merger. Ultimately it didn't go ahead for lack of mutual agreement on a suitable business case emerging.

There had also been grassroots shareholder action from the Meat Industry Action Group (MIAG) made up of dissatisfied farmers who were pushing for co-op merger. Candidates from within that group stood and were elected to the AGL and PPCS boards, resulting in the two sitting chairmen being deposed.

At the start of 2008 Alliance Group CEO Grant Cuff began strategising the around a radical restructuring of the New Zealand meat processing sector. The rise in profitability of dairy farming coupled with 2 years of lackluster returns for lamb and beef and the resultant poor profitability was leading widespread land use change.

Unbeknown at the time his predecessor in the CEO roll Owen Poole ,who had recently been appointed as and independent director and subsequently as Chairman, was hatching a similar plan.

The plan involved merging of the two farmer owned co-operatives AGL and the PPCS while simultaneously buying out the assets of private meat companies AFFCO, ANZCO and Bernard Matthews. This would create an entity that processed 80% of New Zealand sheep meat and beef.

The process played out over a very and short and frenetic period and what started in January 2008 was essentially finished by April 18th of that same year when PPCS publically withdrew its support. Subsequently they were found to have been negotiating concurrently with Pyne Gould Wrightson to strike a deal on their own.

The Change Managers:

Grant Cuff - CEO Alliance Group Ltd

Alliance Group CEO 2005-today.

Strategy before structure?

GC:" Yes."

When does strategy become structure?

GC:"If structural change needed to achieve outcome."

What was the main catalyst/driver?

GC:" Dairy payout had gone from $4.10 per kg/milk solids to $7.67 in 2008. At the same time lamb had gone from $58 per head to $60 resulting in widespread land use change. Widespread drought had exacerbated the situation driving up milk prices but driving down lamb.

There were too many processing assets for a declining lamb and sheep kill.

Who were the main instigators?

GC:" Senior Management and incoming Chairman and ex AGL CEO, Owen Poole.

What were the initial steps?

GC:" Initial focus was on how to materially lift farmer returns. Looked at how the industry could achieve cost effective asset mix and shift focus towards markets.

We determined scale was required to:

- Provide assets to rationalise;
- But avoid monopolistic outcome;
- To create competitive tension for farmers, markets and continual incentive to evolve;
- Be affordable to fund.

Cost/ benefit was worked through at a very high level. "

What priorities did you identify?

GC:" If AGL were to be promoting we needed to get initial buy in from shareholders. Shareholder meetings were held and consent granted.

Engaged other companies before we had a detailed cost, business plan and did wider stakeholder engagement."

What other examples both domestic or international did you look to?

GC:" Fonterra. Scale effect and higher degree of possibility of Government support given precedent. We were aware of world trade regulations having tightened.

How did you priorities other stakeholders ie Banks, Unions , Industry good bodies etc?

GC:"It was a combination of the cost of completing work with that stakeholder and what their potential effect on the outcome was. For example Government and the Commerce Commission effectively held a veto on the proposal, while Banks would be influenced by the soundness of the proposition and Beef and Lamb NZ were more out of just keeping them informed."

At what point and what level did you engage with Government and how receptive were they?

GC:"Early as they had the power to veto required legislative change and may have been required to deal with any anti competitive issues in international markets. Our dealings were with the minister of Agriculture, Jim Anderton, Ministry of Economic Development and the Commerce Commission."

What level of outside expertise was employed?

GC:" Lawyers and Government relations consultants were engaged from and early stage to ensure legality and at least the possibility of success. Once initial acceptance of the proposal was gained we employed economists to do cost/benefit analysis."

How did you attempt to break any impasse?

GC:" A full business case could only be developed with signed agreements from all companies involved. A heads of agreement was in the process of being signed by five companies, one chose not to sign. 'The Concept' was only possible to progress as a contemporaneous arrangement. In this instance the impasse was a both a public and private 'no' making it impossible to resolve."

Outcome:

What was the final outcome?

GC:"A final business case or buy in from stakeholders never got to the point of being tested. Companies traded on as before"

What has been the opportunity cost of not getting the desired outcome?

GC:" Financial cost to AGL who funded the initial proposal and an unknown benefit to the industry as a whole."

Any advice to change managers of the future?

GC:” Major change is complex, involving multiple private,public and international stakeholders. While you can develop and effective process you cannot guarantee success. Be prepared for the challenges that arise from either success or failure”

Authors Note

Owen Poole was also approached for input and while initially forthcoming later politely declined to elaborate on his original statements. No formal notes were taken from the original conversation however from recollection the corroboration of events was almost identical to Grant Cuff’s. He did however express disappointment that ‘other involved parties’ were subsequently proven to have been in contemporaneous talks with another outside entity calling into question their commitment to the original proposal. This in his view was a material cause of the ultimate failure.

The red meat sector has continues to be pressured low profitability and resultant land use change caused diminishing livestock supply, particularly in sheep meats, exacerbating many of the original issues. Lamb slaughter numbers in 2007/08 were approximately 27 m as opposed to 19.5m in 2013/14. Pressure continues for industry leaders to find a solution that can lead to more sustainable profitability.

EXAMPLE FOUR - NZ AVOCADO

NZ Avocado and the creation of Avanza.

Background:

NZ Avocado is the industry peak body and operates under the Horticulture Export Authority(HEA), with 11 independent exporters, 12 registered pack houses and about 1600 growers. Over recent years the Avocado industry in NZ has evolved a highly collaborative model.
Avocado Industry Council Ltd (AIC) which is a wholly owned subsidiary of NZ Avocado Growers Association, both of those entities making up "NZ Avocado". Nz Avocado differs from some other 'industry good' bodies in the fact that through the HEA it controls export licences and has the power to evoke licences of operators who don't comply with the industry agreed Export Marketing Strategy (EMS). NZ Avocado collects both a commodity levy and growers pay a export management fee based of both export and local sales.

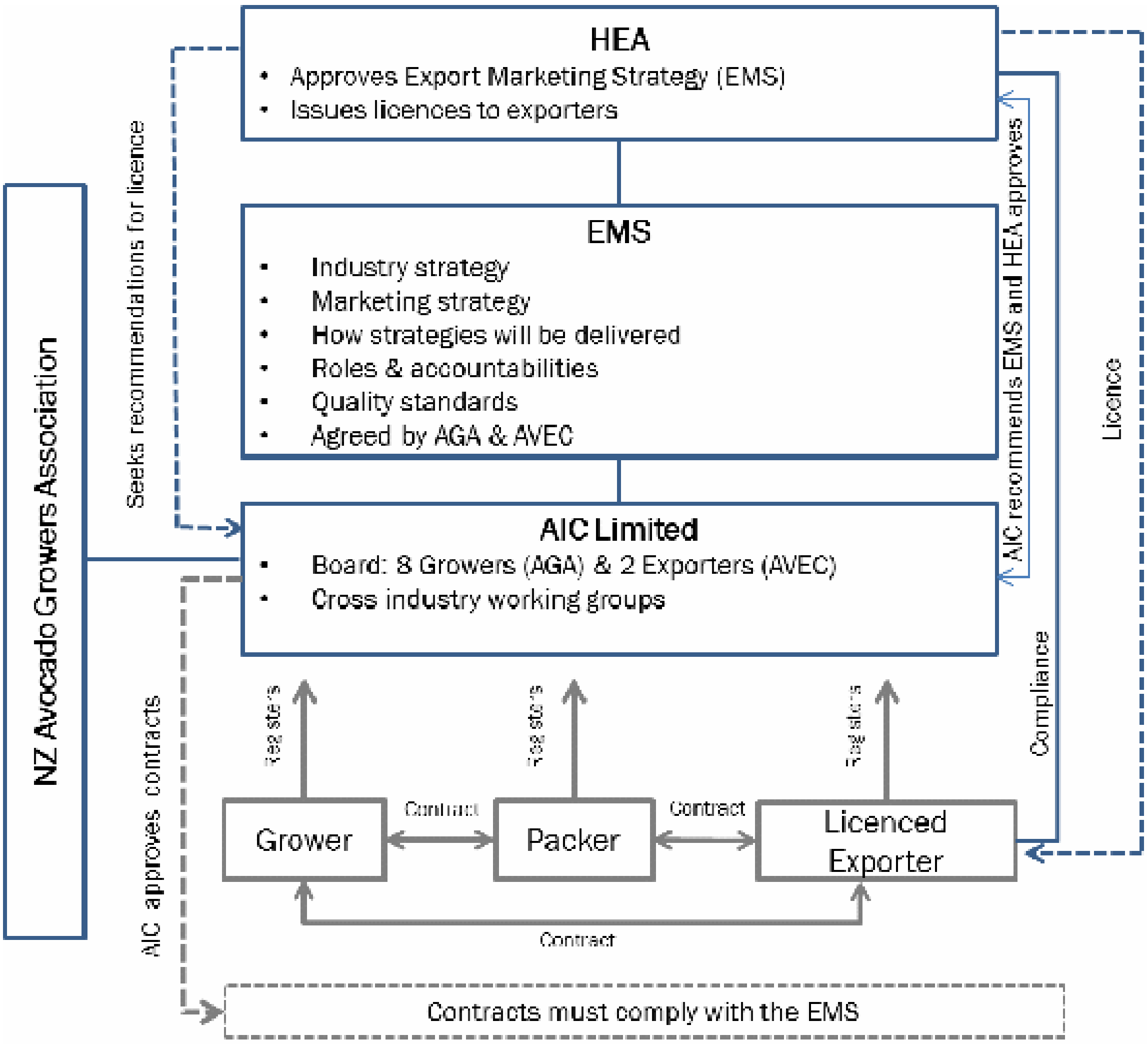

Figure 2

The domestic market consumes about 30% of the crop and Australia is the largest export market taking up to 55% of the total crop and exports to the USA and Japan take up the majority of the rest. One of the big issues the industry faces is the inherent irregularity of the Hass avocado variety making development of new export markets difficult because of the potential inability to supply one year to the next.
Prior to 2011/12 a fragmented structure and subsequent competition to sell into the Australian market did not always deliver profitable returns to growers.
At the end of the particularly difficult 2011/12 season the industry led by NZ Avocado made a conscious decision to work together for mutual benefit. The two biggest exporters Team Avocado Trust (a grower co-operative) and Primor (privately owned) ,who each had approximately 30% of the export volume and had been in pitched competition for 18 years, decided to form Avanza a joint venture marketing into export markets. They were also joined by the third largest exporter Just Avocado (in the Australian market) giving Avanza control of some 85% of the exported fruit. Seeka who are predominantly a Kiwifruit company also deal in avocados and have a loose affiliation with Avanza.
Additionally NZ Avocado co ordinates the local market, working with retailers and growers to aid promotion and consumer education but also to ensure marketing discipline as agreed in a code of practice.
At the same time a Primary Growth Partnership(PGP) with Government has just been signed. The PGP is valued at $13.8m over 5 years, and aims to quadruple sales to $280m (from $70m 2012-13) and treble productivity from 4 tonnes per hectare to 12t/ha.

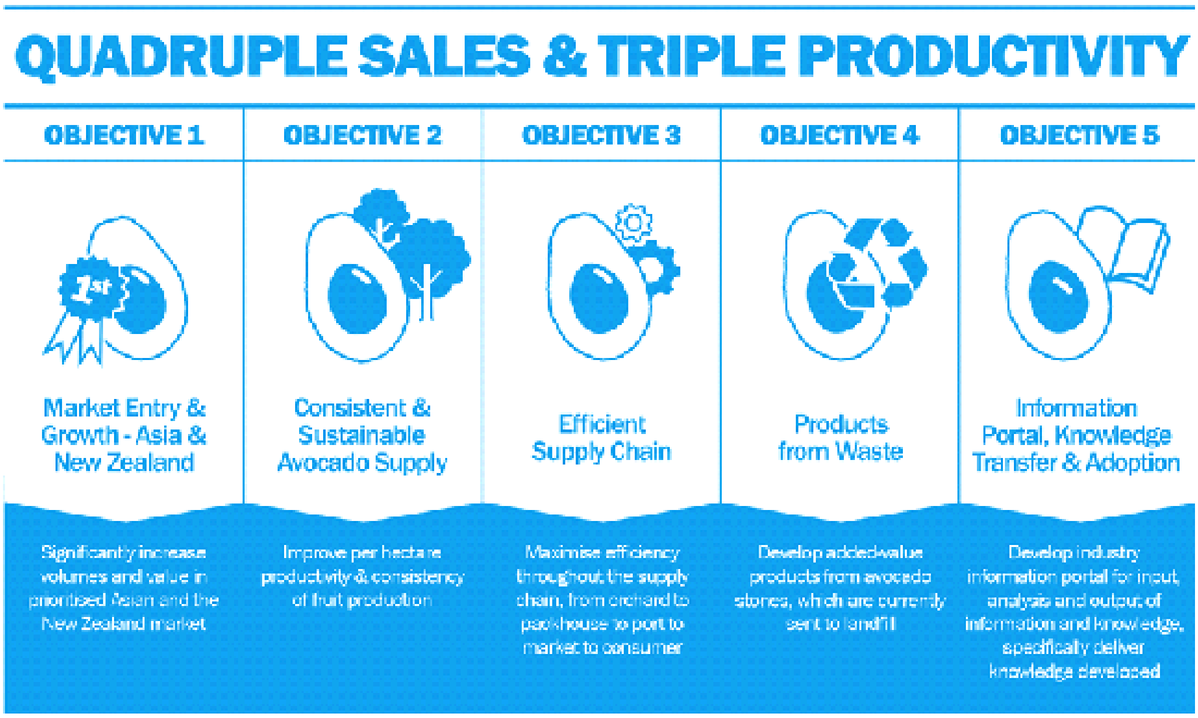

Figure 3

The Change Manager:

Jen Scoular - CEO NZAvocado.

Strategy before structure?

Yes, we have five strategic objectives:

Consistency of yield;
- Promotions and development in export markets;
- Strong industry processes;
- Accountabilities to maximise export value;
- Maximise local market and enforce code of conduct.

When does strategy become structure?

JS:" When its 'so bloody obvious' that it is advantageous."

What was the catalyst/key driver?

JS:" In 2011/12 we had a bumper crop which flooded the Australian market at a time they had a wet summer subduing demand and a large domestic crop. There were 10 exporters competing to sell at any price, quality suffered and orchard gate returns were around $6-$10 per tray well below the $15 per tray considered to be the average break even price."

This coincided with NZAvocado initiating a Primary Growth Partnership (PGP) with 50% Government funding to look at lifting productivity from 4 t/ha to an average 12 t/ha and lifting FOB to $280 million by 2023."

Who were the main instigators?

JS:"Aliaster Young of Team Avocado, John Carroll of Primor and Jen Scoular CEO NZAvocado. There was pressure from frustrated growers and a feeling something had to happen."

What were the initial steps?

JS:" Avanza joint venture formed between Team Avocado and Primor with Just Avocado's joining in for the Australian market,"

Additionally a PGP application was initiated and efforts were made by NZAvocado to co-ordinate the local market."

What priorities did you identify?

JS:"Grower behaviour needed to change as 30% would switch packers/exporters annually. We had capacity to handle double the volume that existed making switching easy."

What other industry examples both domestically or internationally did you look to?

JS:" Zespri. 40% of avocado growers also grow kiwifruit so there was a widespread understanding of the benefits of the single point of entry model."

How did you initially engage with growers?

JS:"There was initial discussion emanating from the lead up to the 2012 Commodity levy review vote starting from about 2010. There was widespread acceptance that something had to change. Other than that it was through fortnightly e-letters, road shows and field days where the positive aspects of collaboration were emphasised."

What level if any did you involve Government?

JS:" We had an engagement plan to work with the Ministry of Primary Industries(MPI) NZ Trade and Enterprise(NZTE) and Assure Quality. Under the HEA collaboration was technically not allowed but there was no Commerce Commission issues. We also kept close communication with banks to build confidence that the industry was a bankable proposition."

What level of outside expertise did you engage?

JS:" We used consultant Jamie McDonald to assist in setting strategy ."

How did you break any impasse?

JS:" There was the usual politics and there has been a bedding in process re governance but in the end it was obvious that it was in everyone's best interests. Money talks! Just Avocado's had an issue which resulted in them retaining marketing autonomy from Avanza outside the NZ and Australian markets."

Outcome:

Has outcome met projections?

JS:" Yes, exceeded them although still early days. Local market has gone from $18m in 2011/12 to $33m in 2013/14. Total value including exports went from $69m in 2012/13 to $136m in 2013/14. The price per tray has increased from $6-$10 in 2011/12 to $20-$25 in 2013/14 and we were marketing a crop that is 1/3 larger. Quality is more consistent, we have better forecasting and our communication with retailers is more proactive.

Its a really exciting time for the industry. The double whammy of PGP funding to do the research necessary to achieve increased and more consistent crop yields plus and the co-ordination in the market place to maximise the per tray value. The industry is feeling really positive. There have been marked changes over recent years particularly in how we work together."

Any advice for the change managers of the future?

JS:" Take small steps. Accept that people do get frustrated. It is important to get the right people on the board, there will be politics involved but you must have transparency for all. You need to ask 'if not why not?'. Ultimately money talks, its an easy measure.

CONCLUSION

Conclusion

As stated in the introduction the aim of this report is to analysis the key attributes of 'herding the cats'. What conclusions can we draw from our case studies that may shed light on their success or otherwise and how that might be a guide for future change managers in New Zealand Primary Industries.

A constant across our four case studies appeared to be the calibre of the leadership. Success or otherwise was not determined by the abilities of the leaders in the opinion of the writer. In all cases the change was being progressed by competent and motivated individuals.

Strategy was always placed before structure but there appeared to be reasonable consensus that structure evolves as part of the mix as the strategy progresses. Scale was consistently given as a desirable attribute across all examples. Economies of scale were seen to drive efficiencies in logistics and allocation of capital at the same time as aiding market presence, allowing co-ordination of marketing and reducing the likelihood of being undercut by a New Zealand competitor.

A main catalyst for change was economic imperative across the examples. However in the dairy and wool examples there was some Government initiated direction. In the case of dairy it was a case of trying to find an economically and politically acceptable method of preserving an already existing single seller model of the Dairy Board in the face of legislative reform. In the case of wool it was the Government trying to find ways to restore the fortunes of a once highly significant export industry.

All examples were top down initiatives led by boards and/or senior managers, however in the case of the two successful examples, Dairy and Avocado there appeared to be a more broad based initial driving of the proposition from the farmer/growers. Dairy farmers liked the single seller model of the Dairy Board described as "like a religion" by Sir Henry Van der Heyden. Avocado growers also had a high level of exposure to the single seller model by way of 40% of them also having kiwifruit interests and their industry body had powers under the HEA to withhold export licences if undesirable behaviours were happening. In the case of the meat and wool examples, while there were considerable economic imperatives for change and the propositions did gain significant farmer support, a broad base of farmers were not as identifiable as drivers.

Initial steps across the examples were variations of establishing business cases around consolidation of existing players.

Priorities were mixed. In the case of dairy it was very internally focused. Focusing on getting the right people in place around board tables to drive structural change. With meat and wool there was a much more complex range of stakeholder agenda's and ownership models to deal with. With Avocado there appears to have been a very holistic view taken with structural change overlaid with behavioural and management change as exemplified by the PGP application.

Surprisingly most of the reform examples looked to were domestic. While dairy did look at international models the others tended to look to other New Zealand primary industries for examples. This may reflect that New Zealand has very export focused primary industries operating without Government support making them already highly evolved by international standards.

Fonterra was sited by both the meat and wool examples and appears to be viewed as the gold standard and Zespri appears to be the horticultural equivalent.

Farmer engagement was a constant across the board. All the leaders emphasised the necessity of communication, initially at a high level. In the dairy and wool examples considerable polling and focus group analysis was done. In all examples there was a very high emphasis on shed meetings acknowledging that this is a way which farmers/growers like to receive information. As Shadbolt noted "farmer hate bullshit, just give them the facts, less is best'. In the dairy and meat examples farmers would be the final arbiters through their voting. With wool it was through commitment of supply and capital and Avocado NZ needs support from its growers every six years to retain its right to collect a compulsory levy.

Other stakeholders such as banks, industry good organisations and unions were generally kept informed at a courtesy level. In the case of banks it was considered that it was all about how robust the business case was as to what support they would bring. The wool example saw outside groups hostile to their plans actively undermining their campaign and needed to use considerable energy to rebut false accusations and misinformation. NZ Avocado prioritised the banks from its industry good perspective as a means of communicating the measures being taken to make the industry as a whole more viable. In the words of Sir Henry Van der Heyden" its all about the boards,farmers and government, everything else is just noise".

As New Zealand is supposedly a free market economy Government played a surprisingly prominent role in all of the examples. In the case of the dairy and wool examples it was a key instigator either through forcing change through threats of deregulation(dairy) or pro actively attempting to help find solutions for poor profitability(wool). In all cases Government was prioritised for communications which often were at the very top level such is the importance of primary industries to the New Zealand economy. Circumventing Commerce Commission regulations was at the forefront of dairy and meat reform initiatives and there is an increasing layer of complexity around free trade agreements and how actions that might be perceived as anti competitive are made acceptable to trading partners. A common theme across the examples was Government will only assist in major reforms if the proposed measure has an overwhelming mandate from the farmers. In John Roadley's words "Governments are swayed heavily by votes from farmers".In the words of Jeff Grant "do things without requiring Government assistance if at all possible as getting Government involved makes things much much messier".

There was widespread use of outside expertise in the form of merchant bankers, consultants, Government lobbyists, economists and as a matter of course lawyers. Mostly they seemed to be considered to be a necessary evil as a result of their cost and theoretically based analysis. Roadley considered feasibility studies to be necessary to" build a base case and appease road blockers" and Van der Heyden emphasised that it was important merchant bankers "didn't lead the process but reflected the direction they were given". The wool team did all their own PR and wrote their own press releases to add authenticity.

In all cases there was considerable impasse and with the meat and wool examples they were ultimately unable to be broken. John Roadley and Sir Henry Van der Heyen both observed there were generally only 5 things that mattered, What's the share structure/valuation, who's the Chairman, who's the CEO, what's the name and where is the head office. Sir Henry emphasised getting the right people in place in both governance and management was the thing that would add the most long term value and was more important than the detail around short term valuations. They stressed the importance of being totally confident in your own position and knowing all the detail as your base position. Negotiations were often compared to marriage and as Jeff Grant noted “if someone doesn’t want to marry you, you cant do much about it.” and John Roadley said “ a difficult marriage was better than a difficult divorce.” The need to be prepared for the long haul was a constant theme as was the necessity of persistence. Mark Shadbolt noting “ You win respect over time by keeping at it”. Sir Henry Van der Heyden also noted “you just keep coming back”. Respecting those with an opposing view and working out what was most important for them “their hot button issues” as Sir Henry put it. Communicating regularly and face to face was also observed as important and not allowing negotiation from a distance via press release. It was noted that public and private positions can be quite different by Jeff Grant. Jen Scoular summed it up nicely by saying that “there will always be politics but in the end money talks.”

Once outcomes had been established in the case of Dairy and Avocado industries it was noted that there is no place for looking back. Once the decision is made as John Roadley noted “you either get on the bus or get out”. In both cases there was a good deal of satisfaction and no regrets about having taken their respective paths. In the case of meat it was back to the status quo and with wool the strategy was developed further in a more incremental fashion.

With hindsight nearly all noted the necessity of getting details finalised and agreed at the start of the process. There was a view that there could be too much reliance on consultants during the drawing up phase and that it was advisable that it farmer directors were fully involved throughout that process.

Advice to change managers of the future included:

Sir Henry Van der Hayden:

- You fundamentally need to believe in your vision;
- Understand the risks as you counter balance;
- Fear of failure is a powerful motivator.”

John Roadley:

“Every cause needs a champion, if you decide to be it have courage and don’t allow naysayers to stall for time.”

Grant Cuff:

- Major Change is complex involving multiple private, public and international stakeholders;
- You can develop effective processes but you cannot guarantee success;
- Be prepared for the outcome whether success or failure.”

Jeff Grant:

- Change is difficult and will be different is every circumstance;
- If you cant convince your colleagues of the merits there's no chance of convincing the wider public;
- Every outcome will be a compromise and will be the optimal solution not the perfect one."

Jen Scoular:

- Take small steps;
- Its important to get the right people on board;
- The will be frustration and politics so transparency is crucial at all times;
- Always ask 'if not why not'?
- Money talks as it is the easiest measure."

Mark Shadbolt:

- Seek everyone's views and get co-operation from the start;
- Be prepared for the long haul;
- Start small and build momentum through building a track record of performance.

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