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Saying `no' to the merger

By Tony Baldwin

An alternative plan to the Global Dairy Company has been proposed by a group of dairy industry leaders and businessmen. Strategist Tony Baldwin explains why the merger is a bad idea.

Glabal Dairy Company's (GlobalCo) goals are brilliant: grow sales from $10 billion to $30 billion, get into value-added products, open up our biotech potential, dramatically increase profits, become one of the top five dairy firms in the world. Fantastic! So why do we oppose GlobalCo? Because it won't deliver these goals.

To succeed, it must: Be highly responsive to what consumers want and much less production-driven. Find a lot more capital. Spread risk across more people. Bring in fresh management skills, especially in value-adding areas. Ensure better monitoring and accountability.

Our directors are saying, "we can fix up these things later -- after the vote" .

No they won't. After the vote is too late. If the structure is wrong now, fixing it later will be hugely difficult. Even a great chief executive wouldn't be able to turn it around. GlobalCo simply can't deliver the vision.

Top 5 not possible: Warren Larsen says GlobalCo MUST reach the ranks of the top five dairy food firms in the world within five years. Sounds great! But where on earth will GlobalCo get the additional $60 billion of supplier capital needed to lift us to those lofty heights? Competitors are hugely bigger: Right now, one of our key competitors, Kraft, is raising additional share capital to join Unilever and Nestle in the top three. To be in the top three, you need shareholder funds of $100+ billion. GlobalCo will only have about $3 billion. Warren Larsen's talk of joining the top five without new shareholders is ludicrous.

Got a spare $275,000? Despite Warren Larsen pretending he has "no idea in hell" of where the figure comes from, top advisers to our leaders have said we need an additional $12 billion to achieve our growth strategy, $4 billion of which is supposed to come from us farmers. That's about $275,000 each.

Anyone got a spare $275,000? Want to put the lot into Brazilian milk factories and high risk consumer products? Under GlobalCo you'll have no choice. They'll take it from your payout without asking.

"Must do" safeguards not met: If a whole lot of `must do' requirements are not met, McKinseys said a mega co-op would be worse than two competing co-ops by $300 million. So we've got a big problem on our hands -- the `must do' requirements have not been met (unless McKinseys and our directors are planning something none of us know about).

What key must dos are missing? First, a sister corporate to grow the value-added businesses, with ownership not linked to supply, ready to list on the stock exchange. Second, an obligation to make 4 percent efficiency gains every year. Third, a large minority of independent directors. Fourth, proper separation of dividends from milk payments. Fifth, true merit based job selections. Sixth, a new performance based culture and ethic. Seventh, a "fast and disciplined" approach to the merger.

NZ divided: Despite John Roadley's claims of `keeping the industry together', GlobalCo is a recipe for division and foreign control. Our farmers will be `cherry picked' by foreign-controlled competitors. There will not be another major NZ processor to join.

The Government's new special regulations are supposed to make this foreign `cherry picking' easier.

Why don't we keep our NZ industry under two strong NZ-based co-ops? Co-operative principles will be breached: Our directors are promising to stay true to traditional cooperative principles.

Do you know of any large traditional dairy co-operative in the world that is winning in high-value consumer businesses? Until our leaders can properly address these key issues, vote no to GlobalCo. If you've got any doubts, vote no to GlobalCo.
