

# Organizational design, co-op principles and international competition: Lessons from a French Case study

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Euroopa Maaelu Arengu  
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SCIENCE & IMPACT

PROXIMITÉS

# How do co-ops reconcile cooperative principles with market competition?



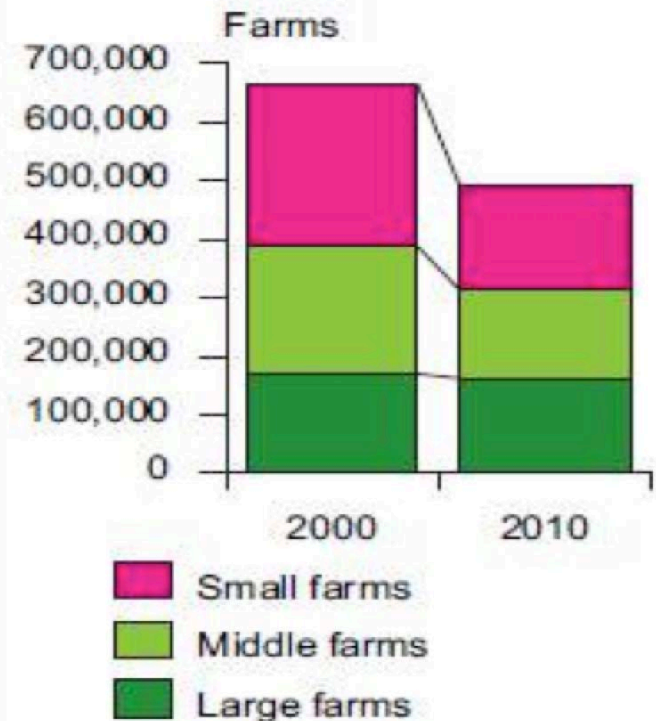
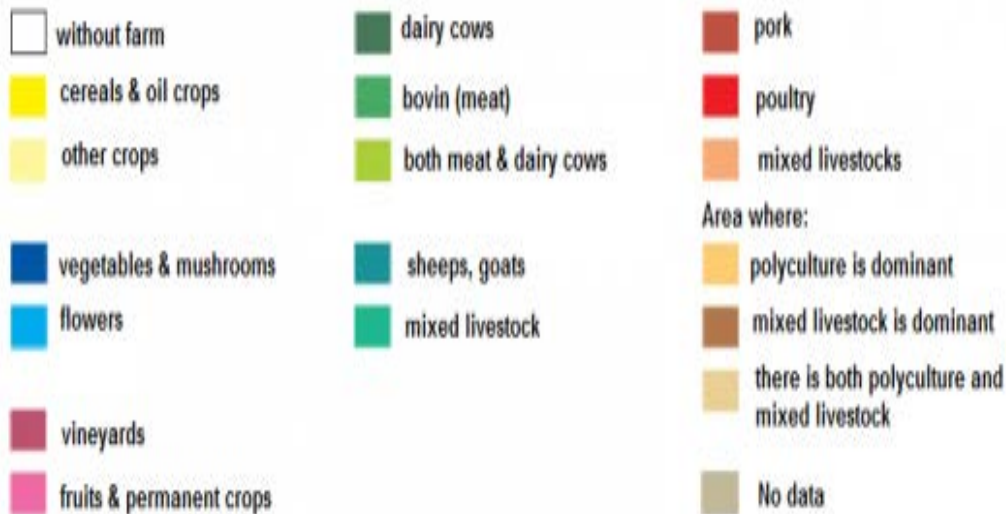
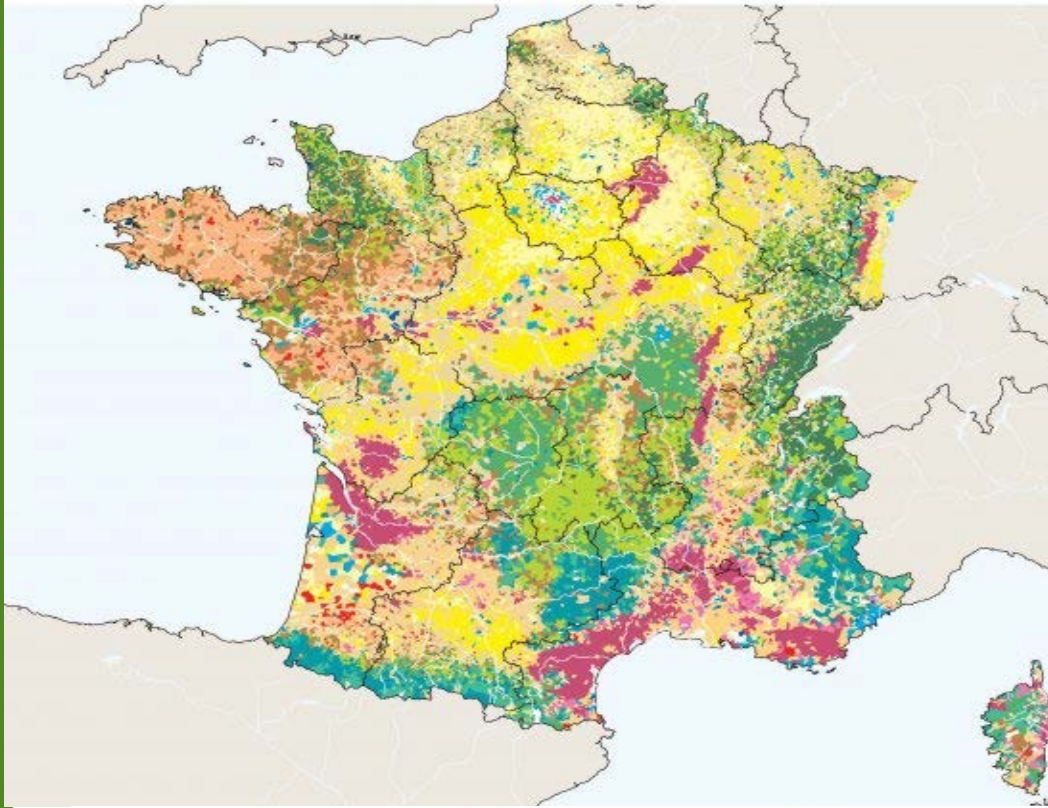
# Organization of the Presentation

- 1 French agricultural cooperative Model
- 2 Agrial Case Study
  - Structure, Strategy, Governance and Internationalization
  - Dairy activity
- 3 What factors explain the success story of Agrial?
  - Management strategy with co-op principles
  - New Governance and membership
  - Organizational design: combining internationalization and organizational innovations
- 4 Some recommendations and critical points



# French agriculture Power and Diversity

770,000 producers  
= 3.3% active population  
(2010, *source: Agreste, 2014*)



# Agricultural Co-ops Facts for 2016

## The good economic results of French co-ops in a time of agricultural crises

- 83.7 billion € Tot. Turnover (Coop de France, 2017)
- + 165,000 employees
- 2.600 co-ops
- 12,400 co-ops for the pooled use of agricultural equipment (CUMA)
  
- More than **3 farmers out of 4**
  - 40% of processing + 60% of collecting
- **1 agrifood brand out of 3**
  
- 1,700 subsidiaries
- **More than half of whom** worked for IOFs under co-op control (SSP, 2010)

# Increasing concentration at work behind cooperative heterogeneity

## Decline of Small Coops (SC) confirmed (SCEES, 2010)

- **1,491 SC with fewer than 10 employees in 2005**  
= half the number of SC a mere decade earlier
- 1% of total turnover of all agro food products  
= 3.6 billion €
- Number of farmers is divided by 10 and same for co-ops

## Co-op Groups: Increasing concentration (Cdf, 2015)

- **Top 100 = 88 % total turnover**  
(57% in 2006)
- **15 groups** with more than 1 billion € turnover in 2016  
= + **60% Total turnover**
- 43 in cereals and seeds; 17 meat; 14 multipurpose; 13 milk; 6 Fruit and vegetables; 8 other

# French Co-ops in EU, more numerous but less internationalized

N	Name	Citiz.	Turn Over c 2015 Md€	Empl.	Members	Sector
1	BayWa	DE	14,928	17 000	No com.	Cereals Appro
2	FrieslandCampina	NL	11,265	-	19054	Dairy
3	Arla Foods	DK	10,3	-	12650	Dairy
4	Danish Crown <sup>1</sup>	DK	7,8€ (59,5 DKK 2016)	25 792	8020	Meat
5	Agravis <sup>2</sup>	DE	7,4	6 100	4300 (125 co-ops)	Cereals Appro
6	DLG	DK	7,304	7 441	29000	Cereals Appro
7	InVivo	F	6,4	9 200	220 co-ops	Cereals Appro
8	Kerry *	IR	6,1	23 000	14% co-op	Dairy
9	Terrena	F	5,044	13 998	22000	Multipurpose
10	Metsa Group	FN	5	9 600	11600	Forest
11	Sodiaal	F	4,998	9 100	13200	Dairy
12	Agrial	F	4,8	21 000	1200	Multipurpose
13	FloraHolland	NL	4,602	3 051	6153	Flower
14	DMK	DE	4,6	7 500	8300	Dairy
15	Vion Food*	NL	4,6	11 021	Not co-ops (1500 via ZLTO)	Meat
16	Tereos	F	4,2	24 000	12000	Sugar

Source: author internet web sites november 2016

\* co-op statute not clear, included by Copa Cogeca not by Coop de France

<sup>1</sup>Year 2015-2016 ; <sup>2</sup> Year 2014-2015

Included by CdF  
Sudzucker (DE) 6,7  
Fenaco (CH) 5,5

# French model specificity: organizational complexity under co-op control

## Traditional Co-ops

- **Respecting ICA 7 Principles**
  - free membership
  - 1 member / 1 vote
  - collective property
  - variable equity
- **Specificity**
  - Owner members
- **+ French constraints including**
  - Territorial circumscription
  - 20% non-associate members (Only 20% non-members allowed)
  - Max 5% voting rights

## Organizational complexity

- **Multipurpose** (member heterogeneity)
- **Downstream** (strong brands with significant financial investment and marketing strategy)
- **Subsidiarization** with horizontal and vertical integration
- **International position** (globalization, volatility and fierce competition ...)

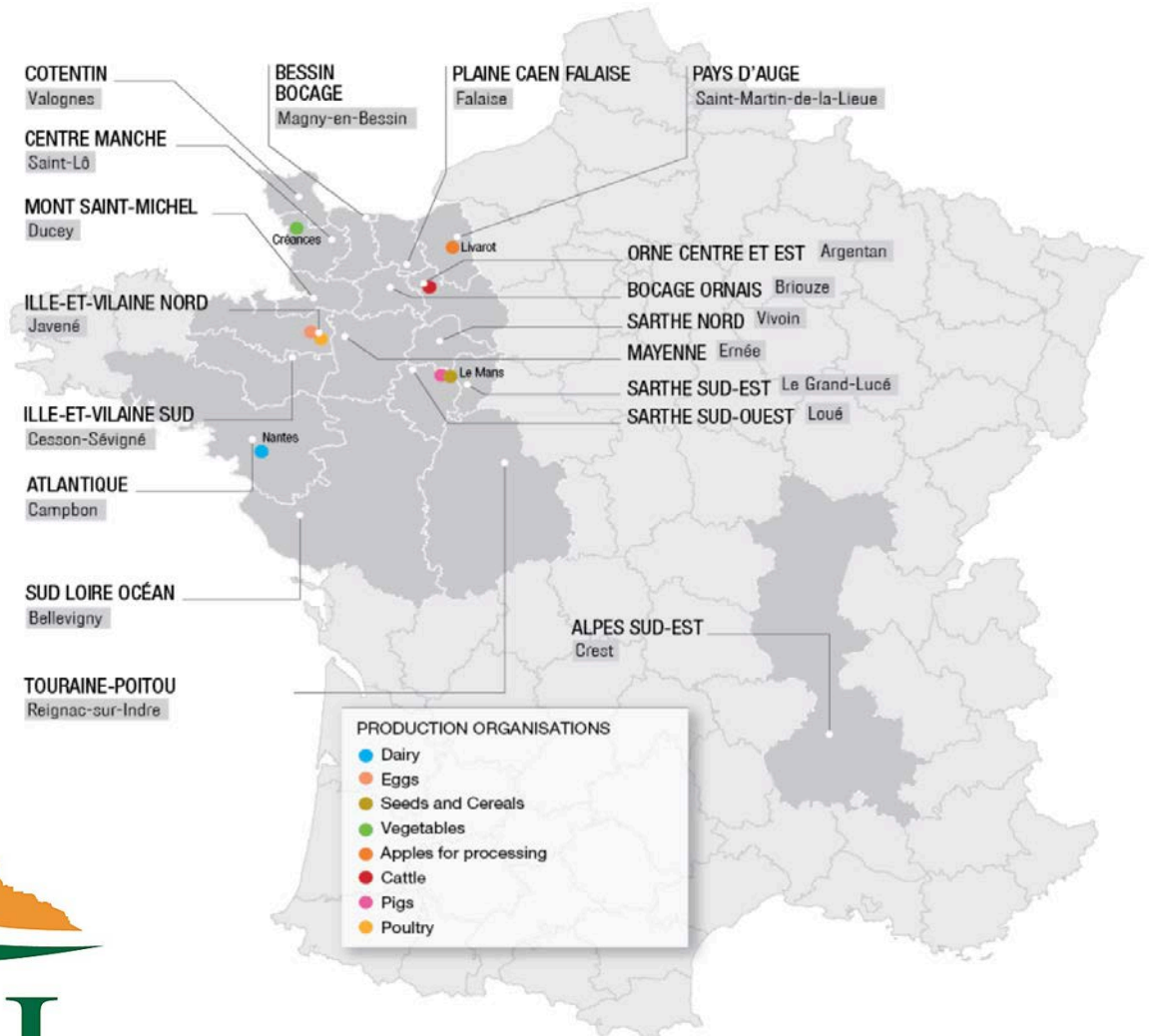


# 2. Case Study : Agrial

## an international food-processing co-op group

### Key figures 2016

- 5.2 billion € turnover 2016 (+ 8% compared with 2015)
- 14,000 members
- 21,000 employees



# Structure : Agrial multipurpose and internationalized co-op group

## AN ORGANISATION STRUCTURED IN 8 DIVISIONS

# 4

### AGRICULTURAL DIVISIONS



#### Upstream

- Agricultural supplies
- Animal feed
- Cereals
- Pigs
- Cattle
- Eggs
- Table poultry



#### Seeds

Multiplication of seeds for straw, cereals, maize and fodder



#### Rural Distribution

Agricultural and retail distribution

- Gardening
- Pets
- DIY
- Agricultural inputs



#### Machinery

Distribution of agricultural and livestock farming equipment

# 4

### FOOD PROCESSING DIVISIONS



#### Beverages

Production, processing and marketing of beverages and apple-based products



#### Dairy

Collection and processing of milk into dairy products and ingredients



#### Vegetables

Production packaging and processing of fresh vegetables



#### Meat

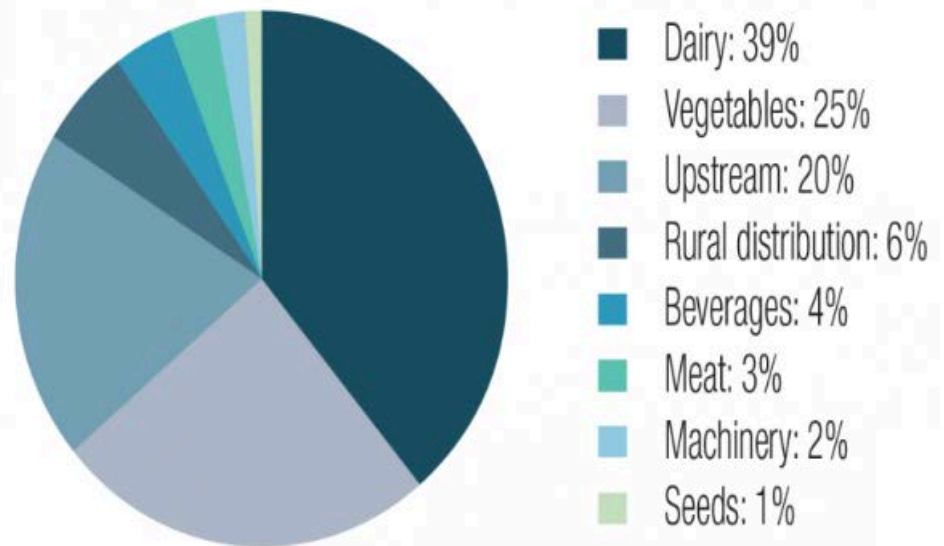
- Poultry trading
- Processing of fresh meat

# Agrial' Strategy: concentration and diversification

- Multipurpose cooperative in both the animal and vegetable domain
- Agrial has developed a structure, which combines product chain value and territory cost minimization
- Its turnover is double in 5 years due to external growth
- their investment in downstream level add more value for farmers

## Agrial' Turnover in 2016

(Source: Agrial website 2017)



# Agrial' governance

- Member representation in the Board of Directors
  - forty members, all farmers and representing a region, a sector or a group of farmers
  - a balance between regional and production representation
  - active participation of members within regions and productions
  - clearly distributed powers of elected representatives and managers
  - predominance of the economic dimension in decisions
- The Board of Directors validates the Group's strategy
- Agrial has introduced governance in line with its agricultural production and food-processing business
- Professionalization of Board and Management

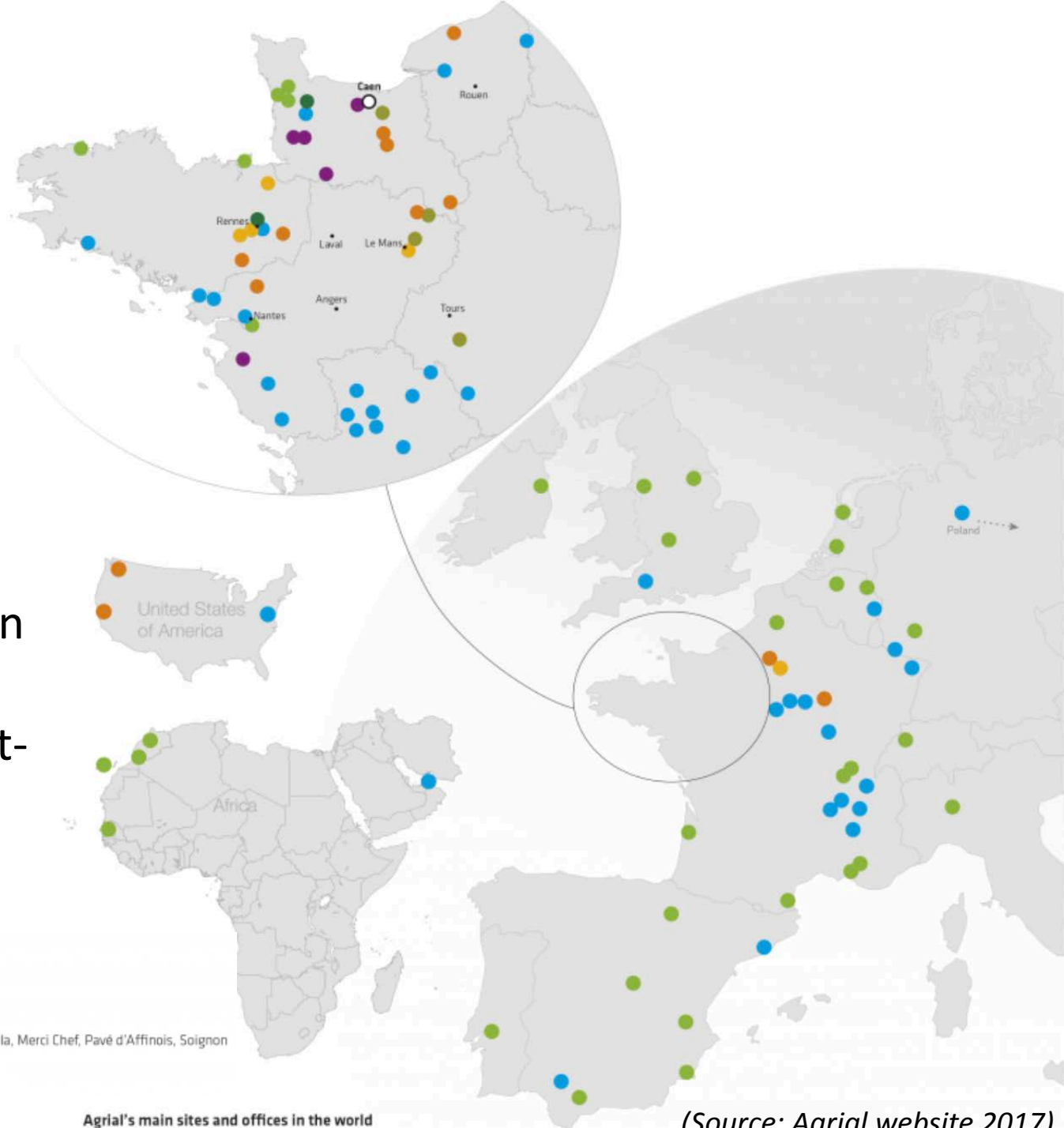


# Foreign strategy of Agrial

Agrial's Presence in the world  
(Agrial website, 2017)

Leader position internationalization

Compagnie' market-driven strategy



Agrial's main sites and offices in the world

(Source: Agrial website 2017)



# Agrial's successful strategy in Dairy sector (1/2)

- Key figures for 2016 (Agrial website, 2017)
  - **5,100 members** of Agrial
  - 2.38 billion litres collected
  - 24 industrial sites in France
  - 9 manufacturing sites and marketing subsidiaries abroad
- N°2 among French dairy cooperative group
- N°1 Soignon brand goat cheese
- New Strategy with Governance changing
  - May 2016 merger with 7 dairy coops of Eurial  
= dairy division within Agrial
  - Support to Farmers, Plus legal right to produce
  - 7 members in the Board
  - 3 new regions managed by a regional board whose chairman is elected to membership of Agrial board of directors



# From collector to challenger, what is Agrial's approach? (2/2)

- They learned from their failure !
  - 1962 : set up of Union Laitière Normande (ULN)
  - 1971 : internationalization
  - 1992 : Union of 15 co-ops failed
- 2009 Agrial analyses
  - 85% of its members were milk-producers
  - End of Milk quota
- 2011 new strategy + Merger with Eurial (2016)
  - 50% participation in Senoble ultra-fresh products (ready-to-eat)
- 2020 Strategic Project
  - Increase goat milk collection by 25 M liters + more than 100 new producers
  - X2 organic milk production

### 3. What factors explain the success story of Agrial?

- **The logic of this organization is based on economic performance**
  - The 16 strategic activities are independent of each other
  - must attain minimum **profitability**
- **but the logic is also to put owner members at the very bedrock of the group**
  - the closer the group is to its members' production, the easier it is for the group to improve its economic performances
  - Agrial bolsters its support for its members during the dairy crisis

# The Challenges faced by Agrial

- **Growing at the international level conserving a close membership**
  - Critical size, membership commitment, governance, competition with co-op principles
- **Being a co-op leader**
  - Manage the strategy with co-op principles :
  - balancing reduction of transaction costs at upstream level and capture added-value on the downstream level of the supply chain
  - Manage co-op problems (portofolio, free rider, ...)

# Innovation and internationalization

- Be an important intermediary between farmers and the end market
- Strategy is to enter international market like “multi-domestic strategies”
- Multipurpose cooperative corresponding to the diversity of its members’ production with minimization of economic risks
- The logic of being regional and of being national leader for members’ productions
- Benefit from substantial return on investments that drives the strategy for internationalization and not some kind of countervailing power or transfer of cooperative ideas



# The new organizational design

- Created a new organizational design in both operating functions and control
- Basing member decision-making according to patronage
- Individualized equity capital is generated in proportion to patronage

# The new governance: the mini-coop

- Manage co-op solutions
- Develop a netchain approach
- Decrease member heterogeneity
- Reinvigorate member commitment

## 4. Some critical points

- Managing the strategy with co-op principles
- Managing cooperative problems using education, information and communication
- Combining territorial development and supply chains to be related with members' needs

# Some recommendations

## What should you avoid?

- For co-ops = never forget co-op principles and members. So, **Governance** is essential. How do you organize the decision-making?  
Be close to your members
- For market competition: never forget that social innovation is your asset specificity. Ensure your **Corporate Social Responsibility**: you need to manage all the environmental, social and economic dimensions

# Thank you for your attention

