

Case Study: Agropur Dairy Cooperative

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Introduction

This case study on Agropur Dairy Cooperative (Agropur) aims to shed light on the governance of this large dairy processing cooperative. More specifically, the Agropur case study proposes original applications of cooperative values, principles, and practices in a large cooperative operating in a globalized and competitive context. This story is told by discussing the Cooperative and its history, considering the deep commitment to a cooperative ethos within Agropur and with its stakeholders, and understanding the relationships between Agropur, its members, and the regulated Canadian dairy industry context.

A cooperative history

Agropur was founded in 1938, in Granby, Quebec, Canada at a time when a deep economic crisis had been raging for nearly 10 years. On the initiative of agronomist Alpha Mondou and farmer Omer Deslauriers, 87 farmers came together to create the Société coopérative agricole du canton de Granby (now Agropur). Originally, the Cooperative had a very specific vocation: to supply its members with animal feed, grain and fertilizer and to organize the sale of farm animals. It was therefore initially a sales and purchasing group.

In the early 1940s, however, Agropur turned to milk processing, producing butter and then cheese. It aimed to increase its members' control in the value chain by pooling the transportation and processing of milk. Organizing as a cooperative gave member-producers greater bargaining power and reduced their vulnerability to price fluctuations and processor control of the dairy industry.

Later on, Agropur also began to manufacture powdered and condensed milk, which opened it to new markets. Over the years, these products were joined by yogurt and fluid milk starting in 1971, then by fine cheeses starting in 1978. Since 1989, Agropur has devoted itself

entirely to processing and marketing dairy products. Agropur has also expanded its geographic reach into Ontario (1995), Western Canada (1998), the United States (2002) and the Atlantic provinces (2013). In 2020, Agropur is the result of more than 145 mergers and acquisitions. It processes 6.6 billion liters of milk annually in its 33 plants in Canada and the

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United States and employs over 8,400 people. More than 60 percent of the milk processed by Agropur is in the United States and 40 percent in Canada. As for the sales, more than 56 percent are in Canada with the balance in the United States. Today, Agropur is the largest dairy processing cooperative in North America ranking 16th among the world's largest dairy processors,¹ with sales reaching CDN\$7.7 billion in 2020.

Agropur's membership (dairy producers) has declined over the past 30 years: from over 9,000 members in 1976² to 2,974 today. The majority of members are in Quebec, and just over 320 are located in the Atlantic Canadian provinces of New Brunswick, Nova Scotia and Newfoundland. The decrease in Agropur's membership is due, in part, to the decrease in the number of dairy farms in Canada. From 1971 to 2011, 82 percent of dairy farms disappeared in Quebec. In 2016, only 12,895 Canadian farms included any dairy activity. The latest data collected at Agropur in 2018 shows an average of 85 dairy cows per farm among their members, while the Canadian average was 76 in 2016.

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Despite its sales growth, diversification of its activities and geographic expansion, Agropur remains committed to its cooperative identity and strives to maintain a close relationship with its member-producers. The organization's raison d'être is to continue to serve its member-producers by creating value for them and for consumers.

Living the cooperative ethos

Agropur favors the cooperative model because it gives producers greater control over the dairy industry's value chain by reducing the number of intermediaries between them and the consumers. Without Agropur, producers would be at the mercy of conventional private sector processors who would reap the benefits of any financial surplus. If we add to this the context of globalization, where the competitors are the giants of the agri-food industry, the role of a processing cooperative is just as relevant in 2021 as it was back in 1938 when Agropur was

¹<https://www.dairyreporter.com/Article/2021/08/26/Who-has-grabbed-top-spot-in-Rabobank-s-Global-Dairy-Top-20#>

² Saint-Pierre, J. (2014). *La coopération au sein d'un grand succès. Agropur, 75 ans de passion*. Montréal (CA): Fides.

founded. Agropur puts cooperative ethics into practice in its message, in its relationship with its member-producers and for the benefit of its stakeholders.

The message: For the past ten years, Agropur has been promoting its cooperative business model based on solidarity, democracy and the collective pooling of resources. It describes itself as a vehicle for empowerment and wealth sharing. Here is how Agropur's website states its understanding of a cooperative:

Being a cooperative means helping to build a fairer, more equitable world. The more of us there are who share these values, the more we will participate in building a better world.

We contribute to the economic vitality and well-being of our communities.

We are building a better world.

Better dairy. Better world.

We are Agropur.³

The members: Agropur's mission and strategic goals embody cooperation as an extension of the members' independent dairy businesses. Its goals of long-term financial profitability for their members and their communities, member support and dairy industry development link Agropur's strategy to the needs of members.

Each year, the Cooperative pays its members patronage returns based on the members' annual milk production and the Cooperative's surpluses, in accordance with the International Cooperative Alliance's (ICA) cooperative principles. This economic return to members is only one element of the long-term relationship between the member-producer and Agropur, as an extension of the member's dairy farm. A sophisticated system and structure of member animation (engagement), parallel and complementary to the democratic elective structure, allows for a two-way dialogue. Also, to support its producers, the Cooperative offers the services of cooperative advisors whose role is to accompany them with their dairy activities and other aspects of the cooperative association through various communications, regular visits and organizing regional meetings. The Cooperative's alignment with its members' needs (financial, quality of the dairy production, development of the dairy sector) is also reflected in

³ Agropur's website: <https://www.agropur.com/en/our-cooperative/we-are-a-cooperative>

its business strategy. For example, the launch of the yogurt brand iögo in 2012, a very risky project, and notwithstanding its sale in 2020, was implemented to add value to members' milk production. In addition, Agropur acts as a political force to support not only its members, but the Canadian dairy community.

The stakeholders: For Agropur's stakeholders, namely suppliers, employees, financial backers and consumers, the Cooperative has a clear objective: to offer quality products and build for the long term. Because it acts in a hyper-competitive and globalized environment, Agropur's governance is always balancing different considerations. Its cooperative DNA translates into the establishment of long-term partnerships where the interests of the stakeholders are considered while contributing to the interest of members in accordance with a multigenerational perspective.

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Among the cooperative values that define Agropur's action, those of mutual aid and self-help deserve emphasis. From the milk produced by the member to the final product purchased by the consumer, Agropur affirms and acts in the direction of the sustainability of the dairy activity of its members where each one has a duty to contribute in terms of product quality and commitment to the Cooperative. The associative culture of Agropur is distinctive on this point.

Thus, Agropur, to this day, assumes its complex purpose based on the cooperative ideal of associative principles and values. As we shall see, Agropur evolves in a context where competition and globalization impose constraints. The next section describes the Canadian dairy system and the relationship between Agropur and its members.

The Canadian dairy system, member-cooperative relationships and stakeholders

This section describes the Canadian dairy context in order to clarify who the member-producers are, leading into a broader consideration of Agropur's relationship with its members and the place of stakeholders in the Agropur ecosystem.

The Canadian dairy system

To fully understand the relationship between Agropur and its members, it is necessary to also understand the context of the Canadian dairy industry. All dairy production is structured around a supply management system that takes the form of quotas distributed among dairy producers at the provincial level. Implemented between 1970 and 1975 to adapt supply to domestic demand, this system allows Canadian dairy producers to sell their milk at a stable price. For producers, the supply management system means a cap on their right to produce. In order to produce more, they must purchase a quota.

The Canadian supply management system was complemented in the early 1980s by the implementation of a joint plan between processors and dairy producers in every province. This involves a pooling by dairy producers of all planned milk production. This system makes it possible to set an average price for milk deliveries (price paid to the farmer for milk that is picked up at a farm). The milk producers' unions negotiate agreements with all processors, including Agropur, under a provincial agreement.

This joint plan entails a change in the cooperative relationship between Agropur and its members in one of its fundamental attributes: the usage relationship. Indeed, since producers' milk is directed to a plant determined by PLQ (Les Producteurs de lait du Québec), the milk of Agropur members is not necessarily directed to one of the Cooperative's plants. Thus, the milk produced by Agropur's members can just as easily be processed and marketed by Agropur as by another dairy processor in Quebec or in another Canadian province.

The relationship between Agropur and its member-producers

Faced with this supply management system, Agropur's members agreed that the cooperative would continue to pay for its members' milk according to their production, in order to maintain their member relationship. So, in the supply chain, Agropur's members ship their milk production to the plant determined by the producers' boards, and the producers' boards pay for that milk to Agropur who ultimately pays its member-producers. The production quotas of each member are used to establish the quantity of milk that is paid to them by Agropur. Thus, even today, a direct economic relationship between

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the members and the cooperative is maintained. Agropur's members also agreed that, in the event of a termination of the joint plan, Agropur's member-producer relationship would resume through the direct delivery of their production to the Cooperative under the member contract.

The particular set of rules governing the dairy sector led Agropur to develop a framework on the admission of new members in the 1990s. The decision was made because of the Cooperative's inability to process additional milk due to its processing quotas. Agropur would be unable to process the milk produced by new members, representing a contextually induced hitch in the membership principle conditional on the members' ability to use the cooperative's services. So, under this framework, most new members allowed in are the successors of retiring members.

In addition to the economic relationship between Agropur and its members, members are committed to Agropur through a democratic governance structure that promotes participation and information exchange. In terms of participation, members are solicited through regional and annual meetings to exercise the

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democratic and representative functions of the Cooperative. Additionally, a structure of facilitators (member-producers chosen among their peers) support the associative life and aim to keep Agropur's vibrant membership relationship alive. In addition, Agropur consults its members approximately every five years on important strategic issues. Each of these elements are described further in the governance system section below.

The relationship between Agropur and its stakeholders

The stakeholders playing a role in Agropur's governance are diverse. Formally, Agropur has retained full control of the cooperative in the hands of its members. And, the Board of Directors' voting members are all producers. However, one other important group of stakeholders influence the Cooperative, namely the financial/lending partners who invested in Agropur through preferred shares in 2014 and 2015. At the end of fiscal year 2018, these external owners of preferred shares held 33 percent of the Cooperative's total equity. These stakeholders are not eligible to vote and therefore are not decision-makers regarding

Agropur's strategy, but they do receive interest based on the terms associated with their shares.

The use of outside capital triggered a period of reflection on the nature of ownership status within the Cooperative. Some members mentioned a desire to participate in Agropur's financing as an investor. The Board of Directors, both at facilitator meetings and at general and special assemblies, initiated a reflection on the status of the member-producer and the nature of their relationship with the Cooperative, expressing the fear that, for a member, capital investment without a usage relationship could lead to a substantial change of status. If the return on a member's investment became greater than the member's milk production income, it could change the member's priorities when making decisions about Agropur. As a result, Agropur's priorities could be affected. Conversely, if the return on investment remains lower than milk payment and patronage dividends, the member's primary interest remains the valorization of its milk. The subject was debated at various associative life meetings, and it was finally decided to maintain the status of producer and not investor, so member-producers cannot invest in newly issued capital like outside investors. However, the debate could resurface if a new capitalization process became necessary.

The community of dairy producers in Canada is another important stakeholder. As a major player in the Canadian dairy industry, Agropur is committed to defending the interests of its member-producers, but also of all Canadian dairy producers. One of the messages conveyed by the Cooperative during its expansion process was to keep the ownership of dairy processing assets in the hands of Canadian producers. Over the years, Canadian producers have seen the value of Canadian-owned milk processing assets fall from 50-55 percent to 35 percent in the hands of private Canadian and foreign non-cooperative companies. The opening of the Canadian market to foreign dairy products due to the various free trade agreements could reinforce this trend.

Other stakeholders which are non-member producers, such as milk producers' boards in Canada and the USA, 8,400 workers, and communities, interact in different ways with Agropur. Regarding the producers in the United States more specifically, the relationship with Agropur is a supplier-buyer relationship. Agropur must ensure its milk supply through various contracts with producers surrounding the different processing facilities. Strategically, the purchase of processing assets in the United States was intended to grow Agropur's business

in a globalized world where competitors are constantly growing and expanding their territories. Hence, the facilities belong to Agropur and its members, not to the non-member dairy producers who supply them.

As for the communities where Agropur operates, the Cooperative contributes to community development through patronage returns to members, investments in plants and distribution facilities, and salaries paid to its employees. This does not mean that there are not, from time to time, tensions where Agropur must decide where best to allocate its resources to improve its efficiency. Such a scenario may include closing plants or selling less productive assets. Overall, year after year, Agropur processes more milk and employs more people, and the Cooperative is continually investing in plants to help sustain productivity and meet customer needs.

The governance system

Agropur uses the traditional democratic structure of a cooperative, namely a General Assembly that elects a Board of Directors responsible for the administration of the Cooperative and the hiring of general management. The decision-making power remains exclusive to the member-producers. Each member has one vote, and only member-producers can be elected as directors. Preferred equity investors, managers, and non-member producers cannot vote or be elected. This section defines and discusses the governance structure by presenting the regional and annual members' meetings, the Board of Directors, the animation structure built around the member facilitators and team of cooperative advisors, and the strategic consultative process.

Regional meetings

The foundation of the governance structure resides in the member-producers and their regional meetings. The geographic territory covered by Agropur's membership is divided in 10 administrative regions of approximately 300 members each. Each region holds meetings where members residing in the region

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exercise their voting right to elect the delegates who will represent the region at the General Meeting. One delegate is elected for every ten members for each of these regions. The

participation rate at the various regional meetings is generally about 25 percent, as reported by the cooperative affair department.

Annual General Meeting (AGM)

Delegates elect the directors at the AGM: ten members are elected, one from each administrative region (a ratio of one director for approximately 300 members in an administrative region). In addition, there are three at large seats elected by all delegates present at the AGM. One of these at large seats is a young director position (under the age of 35), a position created in 2019 and intending to further support the involvement and engagement of young milk producers within the Cooperative. Nearly 70 percent of elected delegates attend the General Assembly, which is an important event in the democratic life of Agropur.

The question period of the General Meeting is characterized by its transparency, where no subject is excluded. Two question periods are scheduled: the first deals with the annual report – including the overview of the financial statements – and the second, with the Cooperative's business environment, its associative life and other issues. Members bring their concerns about their reality as producers and as members, as well as concerns regarding the Cooperative's results and trends in the dairy industry. These question periods end only after all questions have been answered, so it is not uncommon for them to last for an extended period of time.

Board of Directors

In 2021, the Board of Directors is still composed of 13 dairy member-producers. Because the size of the Cooperative and its deployment in different markets requires specific expertise, the Board of Directors has been appointing independent directors with expertise in areas such as global agricultural markets, manufacturing, or finance to participate in its meetings since 2009. Their expertise complements that of the members who are rooted in dairy farming and cooperation. In 2020, the Board of Directors had three independent directors.

The practice at the Board is consensus building as opposed to the use of voting, and the expertise of these invited members is sought in building the knowledge base for decision-making.

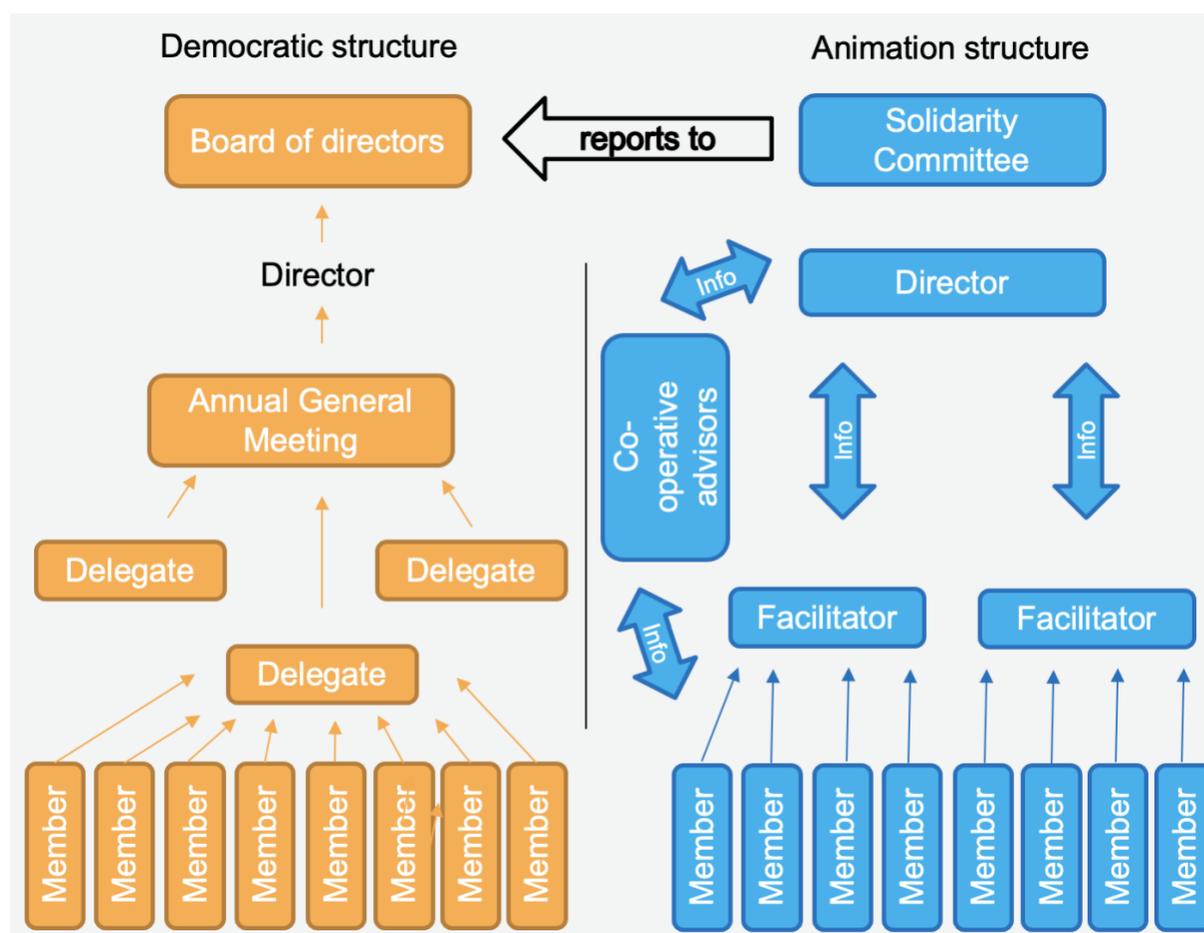
While these non-voting independent directors do not have formal voting rights, the practice is to include them on an equal and fully transparent basis. They participate in all discussions, have the freedom to speak, have a voice on all matters for which the Board of Directors is responsible and are invited to all activities of the Cooperative that concern the Board of Directors. The practice at the Board is consensus building as opposed to the use of voting, and the expertise of these invited members is sought in building the knowledge base for decision-making. Thus, the weight of the words is the same for everyone around the table, even if the vote is reserved for the elected member-producers. It is therefore quite conceivable that, on specific topics, the expertise of the invited directors could be solicited more than that of member-directors, knowing that the latter maintain the last word through the voting process.

Animation structure and cooperative facilitators

Agropur's animation⁴ structure was set up in 1949. This network acts in parallel with the traditional elective structure to provide a structure and associated processes for member engagement. Based on the ICA's principle on education, training and information, the purpose of this structure is to inform and consult members while maintaining an active associative life. Each year, more than 50 meetings and webinars are organized with the member-producers. The efficiency of this internal information flow system allows members to actively participate in important decisions. Figure 1 shows the two structures in parallel.

⁴ In French and English Agropur uses the word *Animation*, which could be translated into *Facilitation*, and relates to the structures and processes of member engagement.

Figure 1. Agropur's democratic and animation structure



Guillotte, C.A (2022)

This unique animation (engagement) structure is under the responsibility of the Solidarity Committee, a committee that reports up to the Board of Directors. It is composed of all elected member-directors and supported by the senior vice president for cooperative affairs and the director of cooperation. The role of the Committee is to manage associative life strategy and to promote cooperation within Agropur and its community of members. The importance given to associative life is hence reflected in the Board of Directors' formal commitment to the realities faced by producers and to ensuring that members remain in contact with their cooperative while understanding its strategic and operational circumstances.

To make the cooperative's commitment to its members more concrete, Agropur deploys a team of cooperative advisors who provide services free of charge to members. These salaried

staff members generally have a background in agronomy and their primary task is to support the work of producers. They offer various training programs that fall into two main categories. The first is cooperative education and training. These activities deal with different topics related to the governance of cooperatives, the role of members, the history of Agropur and its strategic evolution. The other component specifically concerns the dairy producer's profession, with the aim of accelerating the transfer of knowledge on subjects related to milk quality, sustainable agriculture practices, or animal welfare, for example. The team of cooperative advisors is also responsible for managing members' capital and issues related to their membership file. For example, each year Agropur redeems some member capital shares and issues shares when a transfer is made between a member and their children. This service reports directly to the executive Vice-President Legal Affairs and Cooperation dedicated to cooperation.

The role of the Solidarity Committee is to manage associative life strategy and to promote cooperation within Agropur and its community of members.

Every member in a newly merged cooperative was given the same governance rights and responsibilities as the existing Agropur members. The elective structure is reconfigured as required to ensure representation of members. To ensure that new members have access to the information needed for decision-making, Agropur has extended all its association-related activities to new members as well.

Strategic Consultative Process

The relationship with the members is also expressed through extended member consultations, called the "Member Strategic Consultative Process". These consultations are held periodically (approximately every five years) to gather members' opinions on the Cooperative's challenges and future directions and to provide the Board of Directors with input on Agropur's future development strategies. Agropur's major orientations for the last 20 years are the result of these strategic consultations.

The last strategic consultation took place in the Spring of 2021. The process included a survey, an informative webinar and a series of virtual regional meetings to allow members to express themselves in the form of workshops. These meetings were co-facilitated by the region's member facilitator and an additional member recruited from the region, delegate or not. No

Agropur management representative participated or attended the group discussions. The three themes discussed during these sessions were: 1) the use of operational funds; 2) the number of members and amount of capitalization by members; and, finally, 3) the role of members in Agropur's commitments towards sustainable agriculture. This last theme dealt with how Agropur can help its members engage in more sustainable farming practices, but also in how Agropur can contribute to educate the public about the efforts made by the Cooperative and its members to produce environmentally and socially friendly products. The meetings were also accompanied by a questionnaire on members' understanding of the evolution of the Canadian and American dairy industry in order to validate that members and management had a common understanding of industry trends.

Future prospects and conclusion

Considering Agropur's recent strategic reflections, it is easy to conclude that the major challenges the Cooperative faces – namely the evolution of the competitive environment, the decrease in the number of dairy producers and the evolving environmental consciousness changes in dairy production – are all intertwined.

The pressures of globalized markets and the challenges the Canadian dairy industry is facing require an ongoing assessment of the type of relationship Agropur should adopt with its members. As a producer cooperative created to add value to its members' milk production, Agropur will have to constantly seek an evolving balance between processing the largest volume of milk from its members at the best price possible and maintaining a competitive advantage in the various markets it serves. This will also be reflected in its investment strategy regarding new products and markets to develop. The opening of world markets through various international agreements will confront Agropur with choices in terms of the necessary level of investment in assets required versus returns to members. Dairy processing is a capital-intensive industry. Members' equity resides in the processing assets and strong

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product brands that create the financial value necessary to pursue the Cooperative's mission. Hence, staying competitive may require tough decisions in the near future.

The evolution of the membership will always prevail as a sensitive issue for the members and for the future of Agropur as a cooperative. As the number of dairy producers in Canada is decreasing, the pool of members, actual and potential, follows the same trend. A producer cooperative exists to add value to the production of its members. By neglecting to recognize and strengthen this basic foundation of the Cooperative, the investor mentality could dilute the cooperative spirit in Agropur and other large producer cooperatives. The multi-faceted value of membership in a dairy cooperative must be continually clarified, and the Board of Directors and members must remain committed to the cooperative model in order to maintain it.

The growing awareness of sustainable agricultural practices is being addressed by Agropur's members, but also by its management teams. Is there an opportunity to link its environmentally-friendly practices with Agropur's cooperative nature, its integration into communities, its producers' ownership and, most importantly, its long-term vision of a sustainable world? Agropur's strong cooperative roots and practices suggest an in-depth questioning of the potentials that these interdependent dimensions can trigger.

In closing, the current context of the dairy industry described above and reflected in the cooperative's long history points to the need for the sophisticated strategic and operational leadership demonstrated by Agropur. It goes without saying that this leadership and the past, current, and future success of Agropur is inextricably linked to an unwavering commitment to a participatory cooperative governance system that places priority on the engagement of and care for all members.

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