

Co+operate for growth

Growing Scotland's food and drink sector



Why co-operate?

Scotland's food sector consists of many small businesses. 77% have fewer than ten employees and 96% have fewer than 50. In this sector, the challenge is to encourage major growth through industry consolidation and the development of new and enhanced capabilities.¹

Co-operative business models are key to this new strategy. Co+operative Development Scotland (CDS) works in partnership with Scottish Enterprise, Highlands and Islands Enterprise, Business Gateway and Scottish Agricultural Organisation Society (SAOS) to promote business collaboration among food and drink businesses.

Co-operation is part of the Scottish Government's policy in food, agriculture, and rural development. Collaboration is a key workstream of Scotland Food & Drink, the industry-led organisation supported by the government. Its mission is to grow the industry from £10 billion to £12.5 billion by 2017.

Co-operation allows producers and suppliers to benefit from purchasing, supply chain and marketing efficiencies. By pooling resources and buying power, food and drink co-operatives typically enjoy:

- + Lower costs for supplies
- + Competitive prices for produce
- + Shared access to machinery and labour
- + Pooled processing and distribution
- + Access to new and bigger markets

What are co-operatives?

Co-operative businesses are owned and controlled by their members, who may be employees, businesses or consumers. They are set up to meet shared needs and are run on a democratic basis. Employee ownership is a particular form of co-operative working in which the employees own some or all of the company's shares and influence the running of the business.

Fact:

Studies have found that employee ownership increases productivity by 4-5%.² It is also associated with greater employment stability, faster growth and higher rates of survival.

“ The members all saw the co-operative as an opportunity to get into a market that would be really hard to crack on their own. Turnover has grown markedly year-on-year and it has become increasingly profitable as members refine their operations. ”

Fergus Younger,
Argyll Food Producers

Are co-operatives an effective way of working?

A combination of shared ownership and employee participation delivers superior business performance and sustainability. Decisions are taken in the long-term interests of the members, rather than external stakeholders. Agreeing formal processes/systems at the outset minimises governance requirements. Employee owned businesses usually have traditional management structures, complemented by enhanced levels of employee engagement through employee-elected directors and forums.

How do I identify the right partners?

Co-operative businesses thrive where the members have:

- + Similar or complementary products or services which can benefit from economies of scale
- + Shared interests and values, such as ethical trading
- + Common goals, such as growing revenues or enhancing profile to win new business or secure favourable supply terms

Proven business models

Models used in the food and drink sector include:

Co-operative consortium – a collaboration of businesses who want to buy, produce and sell more effectively, while retaining their individual brands, independence and control. Often the consortium model is used to reduce costs, share risks, access new opportunities or introduce new processes requiring scale.

Employee owned businesses – are businesses in which the employees, rather than external shareholders, hold the majority of the shares and control. Employee buyouts allow exiting business owners to receive a fair price while securing the future of the business and its employees. The business is usually acquired on behalf of the employees by an employee benefits trust. A special category of employee ownership is the **Worker co-operative** that operates on a democratic basis, often with an emphasis on sharing information and strong ethical standards.

Consumer and community co-operatives – are owned by their customers or members to provide the goods and services that they need. These can include shops, pubs and micro-breweries.

Co-operative opportunities

New collaborative opportunities are emerging in the food and drink sector. These include niche supply with multiple retailers, public procurement and exporting opportunities.

Research³ commissioned by CDS highlights opportunities for new food and drink co-operatives in four key areas:

Supply chains – co-operatives to buy and sell into new markets such as multiple retailers, the public sector and export markets. Existing examples; First Milk and Openfield.

Local food groups – co-operatives to promote local produce and locations. Existing co-operative groups include Argyll Food Producers and Atholl Glens Organic Meats.

Farmers' markets – co-operatives to reach new customers and capitalise on growing interest in local food and provenance. Existing markets include Perth, Ayrshire, Fife and Stirling.

Employee buyouts – allowing food and drink businesses to maintain employment in the local community and plan for the long term. Examples include Aquascot and Loch Fyne Oysters.

² Research Evidence on Prevalence and Effects of Employee Ownership, Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, U.S. House of Representatives, Professor Douglas Kruse, Ph.D., February 13, 2002.

³ Size and Scale of Opportunity for Co-operative Development Scotland, Ekosgen, January 2010.

Fact:

60 of the UK's top 100 co-operatives are in the agriculture, food and drink sector. Activities include grain, crop and livestock marketing, agricultural supply, food processing, wholefood wholesale, food distribution and supply, agriculture machinery rings and rendering.⁴

“ From a consumer perspective, it is anticipated that there will be increased demand for local and ethical sourcing where co-operative models are already proven. ”

Ekosgen

CASE STUDY: Consortium

Argyll Food Producers

Argyll Food Producers is a co-operative consortium of nine food producers from across Argyll and the Islands. They include Bumble, a maker of hand-made puddings; Winston Churchill Wild Venison, a venison gamekeeper and producer; Ifferdale Lamb, a beef and lamb producer and Loch Fyne Oysters. The members got together in 2007 to sell their products as ready-to-eat food at events under the 'Food from Argyll' banner. By collaborating, each member business has significantly increased sales, exposure and profitability. Support provided by CDS included funding a feasibility study to help the group assess their potential as a co-operative.

CASE STUDY: Consortium

First Milk

First Milk is the largest dairy farmer co-operative in the UK, allowing 2,600 farmers to process and sell their produce more effectively. Formed out of the denationalisation of the Milk Marketing Board, it accounts for 16% of Britain's milk production and has a cheese production capacity acquired from Dairy Crest. The co-operative's total throughput is more than £600m.

CASE STUDY: Consortium

Fife Farmers' Market

Fife Farmers' Market is a co-operative of local producers that was formed in 2001. It turns over around £750,000 a year from 47 farmers' markets across Kirkcaldy, St Andrews, Cupar and Dunfermline. The 16 members include Puddledub Pork and Fifeshire Bacon, Kilduncan Eggs and Bellfield Organics. The co-operative is not-for-profit but has been producing a surplus since a part-time co-ordinator was hired in 2005. Tom Mitchell, Chairman, said: "A co-operative framework is the best one, because it means there is a committed band of producers who can then work together to build a band of consumers."

CASE STUDY: Employee Ownership

Loch Fyne Oysters

A £3.9m employee buyout in 2003 allowed Loch Fyne Oysters to keep its business and employment in the local community. The most likely alternative, a trade sale to an international rival, may have seen jobs and operations move elsewhere. Since the deal, Loch Fyne has almost tripled turnover to £22m and increased its headcount from 113 to 190. "Employee Ownership does engender higher levels of engagement across the business," says Managing Director Bruce Davidson. "This can manifest itself in ideas and suggestions, cost-saving measures, reduced absenteeism and higher retention rates. All enjoy dividends when the company performance warrants, and as colleagues retire and sell their shares, we see them depart with a well-earned cheque to enjoy in retirement." The EBO was funded by Baxi Partnership, the employee buyout specialist, and Royal Bank of Scotland. The company is an internationally renowned producer and retailer of sustainably produced oysters, mussels, smoked products and seafood.

IN THE NEWS:

Protecting Scotland's iconic produce

Building on work by the Intellectual Assets Centre, CDS is keen to help food and drink companies form consortium co-operatives representing 'protected name' produce. Scotland is home to some of the highest selling protected foods in Europe – including Scotch Beef and Scottish Farmed Salmon – which accounted for around £700m ex-farm sales in 2008. The Scottish Government is urging companies to protect their names on a geographical or traditional recipe basis under the EU Protected Food Names scheme. This scheme is similar to the familiar 'appellation controlee' system used for wine. Consortium co-operatives would enable producers to register protected names as a group. Benefits include protection from imitation throughout the EU and increased awareness.

⁴ Co-operatives UK, Co-operative Review 2009.

How can we help?

CDS's role is to provide specialist advice to new and growing co-operative and employee owned businesses to complement the mainstream support provided by Scottish Enterprise, Highlands & Islands Enterprise and the Business Gateway. CDS support includes:

- + Exploring the options
- + Structuring the company
- + Financing the business
- + Developing member participation

Co+operative Development Scotland operates across Scotland and is a subsidiary of Scottish Enterprise. CDS works in collaboration with SAOS, Scotland's development organisation for farmers' co-operatives.

Contact us today on 0141 951 3055

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