

Dairygold Co-operative Society

Category A - Corporate Communications - Financial

The Brief

In mid-2005 the Board and management of Dairygold Co-operative Society determined that a radical transformation of the nature and structure of the business was required in order to develop and grow it into the future. The transformation required would see a significant proportion of the businesses and assets of the Co-op being transferred into a newly established Co-op subsidiary.

This represented a major departure for Dairygold. Traditionally, the Co-op's Board had operated the business strictly in the Co-op model and did not entertain flotation or unlisted plc status for any aspect of its activity in the past.

Background

In common with many agri-food companies, Dairygold has had to overcome a number of challenges over the past number of years. In 2003, the Society recorded operating losses for the first time in its history and the very survival of the business was under threat. The crisis in the business led the shareholders to a vote of 'no confidence' in the Board at the 2003 AGM.

Newly appointed Chief Executive, Jerry Henchy joined the organisation at that time. Mr Henchy and his management team, in conjunction with the Board, immediately embarked on a radical transformation plan for the Co-op. This often painful process involved significant reductions in staff numbers (up to 1,150 over two years), the closure of a number of business operations, the outsourcing of a number of activities, and other cost cutting measures. This had to be achieved at times against a background of quite significant shareholder disquiet and opposition.

By mid-2005 this rationalisation process had largely been completed and the board and management decided to embark on a new growth strategy for the business. It soon became evident that the best way to grow and develop certain aspects of the business was by fundamentally altering the structure of the business itself.

The transformation process of the previous two years had seen the business being redefined into five separate operating divisions – milk processing, agri-trading, 4HOME Superstores, consumer foods, and the property development division Alchemy Properties.

It was decided that the first two of these divisions – milk processing and agri-trading – which were farming dependent, would be retained within the existing Co-op structure. The remaining, non farming-dependent divisions and their assets would ultimately be placed within a new subsidiary company structure which would operate totally independently of the Co-op and be responsible for its own future funding and development.

Achievement of this objective would require a three quarters majority vote of shareholders at a specially convened Special General Meeting of the Co-op.

Challenges

There were a number of challenges to be faced in obtaining the approval of shareholders, however.

1. In the first instance, the majority of shareholders are very attached to the Co-op structure and treat with suspicion any perceived attempt to change it.
2. Equally importantly, the majority of qualifying shareholders (those with votes on such issues) are farmers whose priority is farm produce prices (milk and grain) not profits.
3. Their traditional view of the business has been that profits made from other divisions of the business should be used to support the milk price paid to farmers. Any attempt made to detach assets from the core Co-op business would therefore be viewed less than favourably.
4. Indeed, the Board had consistently reassured shareholders over the years of its continuing commitment to the Co-op ideal.
5. Other large successful Co-ops had gone the PLC route with little perceived benefit to farmer members.
6. Finally, there was little appetite for further change among shareholders. While the performance of the Co-op had improved over the previous two years many shareholders had seen family members and friends lose their jobs as a result of the transformation process and were wary of further change.

Statement of Objectives

Overwhelming support required

The over-riding objective of the shareholder communications campaign was to enlist shareholder support for the proposed radical change to the structure of the business. However, it was decided at the outset that only an overwhelming vote in favour of the change would be sufficient. If a substantial minority of shareholders opposed the proposed changes this could present difficulties in the future and threaten the confidence of the business.

Understanding of proposal

A secondary objective was to ensure that shareholders had a full awareness and understanding of the precise nature of the proposals being put to them. While the overall concept of "splitting the business" was relatively simple in nature, the actual detail of the proposal was very complex and it was vital that shareholders should not be deterred by the complexities of the proposal.

Timescale

These objectives had to be achieved within a very tight timescale. The campaign began in July of 2005 and the Special General Meetings to discuss, approve and confirm the proposal had provisionally been scheduled for January 2006.

Programme Planning and Strategy

A communications strategy was agreed in advance with the Board and management.

The strategy decided upon was one where there would be a build up of information on the proposal over a period of three to four months. It would begin with direct communications to shareholders concerning possible future directions of the business and would culminate with the announcement of the detailed proposal shortly before the calling of a Special General Meeting.

This allowed for shareholders to be prepared for the possibility of further change and then to have the precise nature of the change explained to them and ultimately to engage their support for the change.

A number of different communications channels were selected as the most appropriate for this type of programme. These were the Farm News monthly shareholder newsletter; area meetings where shareholders would be addressed directly by the Chief Executive and Board Members; and newsletters.

The Communications Programme

The communications programme was divided into two separate and distinct modules: information gathering and communication of the proposal.

Information Gathering

It was decided at the outset that clear information on shareholders' attitudes to the future of the business, and indeed to their own future in farming, had to be obtained before embarking on any communications programme in relation to the proposal. There was much anecdotal evidence in relation to these attitudes but no scientific research had been carried out.

As a result professional market research was commissioned and carried out during July and August 2005. This research gave important pointers to the priorities of shareholders. Most significantly, it showed that shareholders would be attracted to the concept of the business delivering income to them in a form other than the milk price. It also showed strong support for the development of the Co-op's non-farm dependent businesses and assets.

The Communications Module

The communications module commenced in September of 2005 with the publication in the "Farm News" monthly shareholder newsletter of the findings of the survey (see Appendix). This was quickly followed by a series of Area Meetings which were addressed by the Chief Executive and Board Members. These Area Meetings were held in various locations throughout the catchment area of the Co-op and were well attended by shareholders due to extensive canvassing by Dairygold staff and voluntary officers.

At these meetings the concept of the business being made up of two distinct entities – "Red Box" and "Green Box" – was unveiled for the first time. Red Box being the non-farming dependent businesses and assets and "Green Box" being the core farming dependent businesses.

There was no attempt to "sell" a proposal to split the business at this stage. These meetings were merely to communicate the current thinking on the future of the business in light of the survey findings and to gauge reaction to it.

This was followed by a further issue of Farm News in October of 2005 which contained the same messages which had been communicated at the Area Meetings. The newsletter reiterated the challenge farmers faced in terms of maintaining their incomes and how a restructuring of the Society might provide a solution to that issue in terms of growing the business and providing an off-farm income. This ensured that all members received this information, regardless of whether they had attended the meetings or not.

This generated considerable media interest and during the following two months the possibility of splitting the business received wide coverage. This was an important part of the strategy. It was believed from the outset that the stimulation of media coverage which would in turn promote shareholder debate on the future of the business would be critical to the overall success of the campaign.

In consequence, close contact was maintained with local media as well as agriculture correspondents and relevant business journalists in national media throughout the campaign. It was especially important that there was very tight management of the extensive media speculation around the proposed restructuring so as to allay shareholder concern with regard to the extent of the changes proposed and successfully delivered support for the actual proposal.

The campaign reached its climax in December 2005 with the announcement for the first time of full details of the proposals and the calling of a Special General Meeting for 12th January, 2006.

The announcement was again timed to co-incide with the publication and distribution of the monthly 'Farm News' newsletter. December's Farm News carried the announcement on the front page to all 8,000 active members and also contained an outline of the proposal on the inside pages. The newsletter also contained a letter from the Chairman urging a high turnout at the SGM and a "Yes" vote at the meeting.

This was accompanied by an intensive media relations effort. Media releases were followed up with personal calls to relevant journalists and newsdesks and the chief executive was made available for interview where appropriate. Shareholders then received their notification of the Special General Meeting. A further series of Area Meetings were held at which shareholders' questions and concerns were again addressed by the Chief Executive and Board Members.

The Measurement Stage

The campaign met all of its objectives in that overwhelming shareholder approval for the proposed restructuring of the business was obtained.

The Special General Meeting to discuss and vote on the proposal which would see the business split into two entities – a Co-op containing the farming dependent businesses and a wholly owned subsidiary company which would contain the non-farm dependent businesses – was convened on 12th January 2006.

An SGM to confirm the proposal was held in the Co-op's Mallow facility on 12th January 2006. It was attended by over 5,500 members who voted 98% in favour of the change in Co-op structure. In accordance with the rules of the Society a second 'confirmatory SGM' was held two weeks later where members again voted overwhelmingly to confirm the decision taken at the SGM of the 12th January. Members have had their say and the proposal was implemented, Dairygold Co-op was restructured into two separate autonomous businesses.

Budget

The budget for strategic corporate communications consultancy to the Company for this project was within the €64,000 to €125,000 range.

Conclusion

For achieving, across a wide and diverse shareholder base, the overall understanding of such a complex strategic business proposal as well as the overwhelming support for such a radical transformation, Dairygold Co-Operative Society is a worthy winner of the 2006 Award for Excellence in Public Relations in the Financial category.