

The future of cooperatives:

An executive roundtable

The current economic environment presents an opportunity for cooperatives, but they need to stay true to their values and adjust to the new realities of a busy, online world.

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The financial crisis, and the severity of the ensuing economic downturn in some Western economies, has sparked some debate about the fundamental nature of the capitalist system and the purpose of the companies that operate within it. The notion that companies have tended to concentrate too much on short-term profitability and too little on their own long-term viability has lodged itself in the public mind-set.

Arguably, such disaffection may lead to an opportunity for cooperatives, which often claim to have stricter governance practices and decision-making processes that give primacy to the long-term interests of their members. McKinsey brought together three leaders from

high-profile cooperatives to discuss the prospects for their unique business model in the current climate. The panelists were Philippe Brassac, CEO of Crédit Agricole's regional bank in Provence Côte d'Azur and deputy chairman of the board of directors of the National Federation of Crédit Agricole; Cees 't Hart, CEO of the Dutch dairy cooperative FrieslandCampina; and Peter Marks, CEO of The Co-operative Group.

Along with their views on the future for cooperatives, the panelists also discussed topics such as the benefits and possible drawbacks of international expansion and the considerable challenge of getting members more actively engaged in coop governance when the modern

Biographies



Philippe Brassac is the CEO of Crédit Agricole's regional bank in Provence Côte d'Azur (2001–present), as well as the deputy chairman of the board of directors of the National Federation of Crédit Agricole. In 2009, he was awarded the Officier de l'Ordre du Mérite Agricole medal by France's minister of agriculture.



Cees 't Hart is the CEO of FrieslandCampina (2009–present). Previously, he spent 24 years at Unilever in several marketing and general-management roles, including senior vice president of marketing operations on the Unilever Europe executive board. His tenure at Unilever was spent in different countries, such as Hungary, Italy, Poland, and Singapore.



Peter Marks, CEO of the The Co-operative Group (2007–present), has spent his whole working life within the cooperative movement, having originally joined what became Yorkshire Co-operatives in 1967 as a management trainee in the food-retail business. In his career, he has managed a wide variety of businesses and functions, including department stores, food, funeral homes, human relations, and travel.

some competitive advantage can be gained because of that.

But I think we should be a little careful about generalizing about business models. You do get banks that think for the long term and consider all their stakeholders in their decision making. Although control mechanisms may be tighter in a cooperative, an organization's behavior depends not just on a model but on the individuals at the top.

Peter Marks: I agree entirely. The cooperative business model, and what we consider to be its superior governance, can only be the icing on the cake, or the tiebreaker. We need, first and foremost, to be efficient and commercial, to give customers the right product at the right price at the right time. What has held UK cooperatives back in the past is that they have often failed at these basics. But if we do all this as well as the competition, then we can use our strengths—the concepts of trust, more transparent governance, and a longer-term outlook—as a potential differentiator.

But cooperatives shouldn't think that customers are going to come flocking to our door just because we have a different model of governance, because that won't happen.

McKinsey on Cooperatives: *In our discussions with many cooperatives around the world, we hear leaders debating how much they want to explore new sources of revenue, particularly in emerging markets. On the one hand, this diversification might aid growth, especially since many coops' competitors are doing it. On the other hand, it might be difficult to persuade existing members that this is the right course of action. How do you think coops can resolve this possible conflict?*

Peter Marks: As far as my own organization is concerned, we're already quite diverse, but we're not necessarily looking to grow internationally. In principle, I don't see that there is a conflict between international expansion and members' interests. If any business venture, whether domestic or international, leads to better financial performance, then higher profits can be distributed to members.

Cees 't Hart: FrieslandCampina started its international expansion many years ago, and it has so far been very successful. The principal objective of our cooperative is to get the most value for the milk provided by our farmers. We do this by trading that milk, and derivatives of milk, across the globe. We operate in more than 25 countries and are still continuing our expansion. We are building our business in China, and have just purchased a company in the Philippines.

Philippe Brassac: On the question of international expansion, I would like to revert to my point about the importance of being useful to the customer. In a benign economic environment, cross-border growth seems an obvious course of action. But when conditions get tougher, you are not going to survive

over time unless you prove yourself useful to the local market.

It's fine to expand internationally in order to increase returns for your members. But we must always remember that we are in China to serve the Chinese, in Brazil to serve the Brazilians, in the United States to serve the US members; we must be useful to each market in which we operate. We must always retain our *raison d'être* and establish our own governance procedures, wherever we are.

McKinsey on Cooperatives: *Research suggests that a key differentiating factor for cooperatives in various industries is that they are perceived to be closer to the customer. But how much does this notion of proximity continue to matter as more communications and transactions are taking place online?*

Peter Marks: I think this depends on what business you are in. We operate a very large chain of convenience stores, and for us proximity is very important. Having a store in a physical location that is convenient for customers is the core element of the business model. Although online shopping is having an adverse effect on hypermarkets because people are buying bulk

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merchandise on the Internet, they still want to buy their fresh food locally.

Proximity is important in banking, too. Our research tells us that although most people engage in online transactions, they want the feeling of security provided by bricks and mortar, to know that there's a bank branch nearby if they need help or advice.

Philippe Brassac: I agree that cooperatives do have better proximity—not necessarily physical proximity, however, but something less obvious: proximity to the customer's expectations.

When you ask cooperative members how long they want a service for, they usually reply that they want it for as long as possible, not just for tomorrow morning. And when we ask them what the ultimate goal of the company is, they say that it should be run in customers' interests.

I'll give you a concrete example. Every year for the past 12 years, I have made a presentation about our bank's pricing policy. Because we are a cooperative bank, I always get asked whether our prices are too expensive. Members never suggest increasing the rate to make more money. And they always want to open more branches. They never argue that we should close a branch

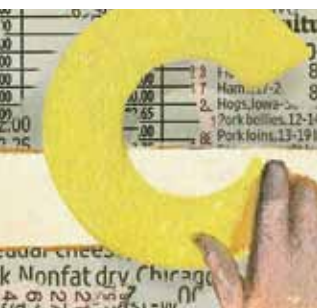
because it's not sufficiently profitable. When I talk about the staff, they always say that we need sufficient people to provide good service. They never say that we should cut our staffing levels in order to improve profitability.

This really illustrates the essential difference between the kind of governance applied in the shareholder model and our type of governance, in which customers have more control.

McKinsey on Cooperatives: *Do you think this notion of proximity could be used to cooperatives' advantage in the coming years in a world where customers are potentially less loyal?*

Philippe Brassac: I certainly think that we need to increase the general awareness of what we offer.

Customers want companies that they think can be controlled locally and won't become an ungovernable, sprawling global entity. We need to make sure that people understand that our model can offer this local control. In the banking sector, for example, there is a very real danger that customers no longer believe there is an alternative model available. We must get the message across that this alternative does exist, that the cooperative model is still available, and it doesn't just belong in the past.



Cees 't Hart: I agree with Philippe that it isn't necessarily physical proximity that is important, but emotional proximity. And in a world where brands are so dominant, consumers want to feel this closeness.

So whether it is Campina in the Netherlands or Dutch Lady in Vietnam, our brands need to be close to the customers' minds and hearts.

However, as a global company, it's more difficult to remain close to our members—the 14,500 farmers who are mostly located in the Netherlands. They have a global company in their grasp, but some of them don't like the fact that they can't see for themselves how we operate in other markets. Maintaining proximity to members is a greater challenge for us than proximity to customers.

McKinsey on Cooperatives: *Cooperative leaders tell us that members are showing less interest in participating in coop governance. People have less time and are increasingly reluctant to play a role. They may be happy to benefit from cooperative services, but they don't want to be active in running the organization. Do you see a similar picture?*

Peter Marks: Without doubt. We have seven million members, but only a small number of those actively participate. And that's not really surprising. You only have to look at the democratic model generally, at what is happening in the political sphere. People don't want to get involved because they are short of time. They just want the services that are provided.

But I also think that the overall interest in cooperatives can possibly be overstated at times. If we are honest, most of the interest still comes

from politicians and the media, rather than from the general public. However, it could well be the case that the banking sector is an exception to this because of the current crisis and various public scandals.

McKinsey on Cooperatives: *Does this lack of participation erode the distinctive character of cooperatives? And if so, is there a new way to engage members and interact with them?*

Peter Marks: There may be an opportunity to engage customers and members generally via focus groups, loyalty schemes, membership offers, and so on. But I simply do not think that more people will participate in the governance of cooperatives. And yes, I think this situation does threaten the model, the main danger being that when you have only a few people running the show, they might impose their political prejudices on the majority. We have certainly seen examples of this in our own governance.

Mr. Brassac talks of members always wanting better services, cheaper prices, and more staff but neglecting the hard commercial issues. But I also see those attitudes in our boardroom, with people espousing political views and advocating ideas that contradict the actual commercial interests of the business. I think that this is a flaw in the cooperative model. There are many benefits, but there are also some flaws that we have to recognize.

Cees 't Hart: I agree that there is always this tension within cooperatives between the commercial imperative and other competing interests. For example, we need to generate the best returns on the liter of milk that has been provided to us by the farmer. On the other hand,



we need to make certain long-term investments in relation to sustainability, whether driven by government or by our own desire to remain accepted by society at large. In this respect, for the farmers I do see a dichotomy between their commercial interests and our responsibilities as a cooperative.

McKinsey on Cooperatives: *If you had one piece of advice to give to the CEO of a fast-growing cooperative on how to be successful over the next decade, what would it be?*

Cees 't Hart: Remain close to your members, and never forget their needs. In such a fast-growing environment, it will be particularly easy to lose sight of why you became a cooperative in the first place. The management is there for the benefit of the members, not the other way round.

Philippe Brassac: My main advice would be to remain aware that our business model makes our organizations more sustainable. Listed companies are constrained by the short-term financial demands of shareholders. But CEOs of banking cooperatives have the freedom to use their resources in another way, offering a wider range of products to many customers. You might sacrifice some short-term profit, but this greater diversification will make the business more stable and resilient, more able to withstand crises.

There are real grounds for optimism at the moment. Whereas listed banks are currently subject to severe criticism, the cooperative

model should enable us to ensure that our organizations are useful to customers. Indeed, it is perhaps the only model that safeguards this customer focus.

Peter Marks: First, I think you need to be very clear about your long-term strategic goals and make sure that the management and the members—those who are elected, who are active, and who sit on the boards of directors—are absolutely united on those goals. Second, you have to be as efficient as your best competitor, otherwise you will fail. In the United Kingdom, many cooperatives have failed because they've been inefficient, bureaucratic, and slow to react to changing circumstances.

The global economic crisis has certainly raised interest in the cooperative model, and this does present an opportunity. But I want to emphasize that the business model itself is not a readymade formula for success. Whatever business you're in—whether you are running a cooperative in finance, retail, or farming—your products, services, and prices have to be as good as your competition. And if that's the case, the cooperative model may well persuade people to choose to do business with you instead of someone else. On the other hand, there's no point using the cooperative model as a differentiator if your products and services are not as good as those offered by competitors. ○