

Strategic Planning in Co-operative Sector: A Study on Dairy Co-operative[#]

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ABSTRACT

Dairy co-operatives are found everywhere in both developed and developing countries. In developing countries, it is one of the income sources of their rural economy whereas in developed countries it takes as a sustainable business. These countries face different types of problems. Developing countries focus on increase in production volume of milk and milk product, and developed countries do on enhancement of milk product, brand, and merger of dairy co-operatives. Dairy cooperatives have been getting various opportunities as well as facing different challenges. They are going to formulate different types of strategic planning to cope with these challenges and to get success. Strategic plans of dairy cooperatives in developing countries are, generally to increase production volume of buffalo milk, bring about the internal improvement in cooperative societies, reduce cost of production, provide quality service to consumer through skill, trained and educated manpower, and e-commerce. Strategic plan of developed countries is quite different from that of developing countries. Their strategic plans are to merge different dairy cooperative societies / institutions into a dairy cooperative, and compete in the global market with quality of products.

A CO-OPERATIVE IS A USER-OWNED and user-controlled business that distributes benefits on the basis of use. According to the U.S. Department of Agriculture, co-operative is distinguished from other businesses by three concepts or principles: First, the user-owner principle. Persons who own and finance the co-operative are those who use it. Second, the user-control principle, control of the co-operative is by those who use the co-operative. Third, the user-benefits principle, benefits of the co-operative are distributed to its users on the basis of their use (Cobia 1989). The terminology used to describe co-operative and other firms differs widely. Co-operatives are also commonly called non-profit corporations or patron-owned corporations. The distinction between co-operative and other businesses is that co-operatives return net income to users or to patrons, while other business firms return net income to users or to investment (Cobia 1989).

In 1860, Rochdale Societies were proposed 10 principles of co-operative which are modified in different period of time. These principles are: as voting is by members on democratic basis, open membership, equity is provided by patrons, equity ownership share of individual patrons is limited, net income is distributed to patrons as patronage refunds on a cost basis, dividend on equity capital is limited, exchange of goods and services at market process, duty to educate, cash trading only, no unusual risk assumption, political and religious neutrality, and equity of the sexes in membership. As the being in change in time, co-operative principles is also become modified. In 1995 the International Co-operative Alliance (ICA) listed revised seven principles. The seven are (1) open and voluntary membership, (2) democratic member control, (3) member's economic participation, (4) autonomy and independence, (5) education, training and information (6) co-operation among co-op-

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eratives, (7) concern for the community (Bandyopadhyay, 2004). According to patronage proportionality – ‘a co-operative is a private business organized and joined by members to fulfill their mutual economic needs as patron of the business, with the key control, ownership, and income distribution decision based on patronage proportions; namely, member voting, equity capital investment by patrons, and distribution of net income to patrons are proportional to use of the co-operative (Cobia 1989). According to the 31st International Co-operative Alliance (ICA) Congress held at Manchester in 1995 a co-operative has been defined as an “Autonomous association of person united voluntary to meet their common economic, social and cultural needs and aspiration through a jointly owned and democratically controlled enterprise” (Bandyopadhyay 2004).

1. Historical Background of the Co-operative

Ancient records and archeological discoveries in fact provide evidence that co-operative activity was common in early civilization. For example, many years before the birth of Christ, the Chinese developed sophisticated savings and loan association not too different from those we have today. In addition, Babylonians developed a way for farmers to cooperate and farm together, and craft and burial societies were common among ancient Egyptians, Greeks, and Romans. In 1752, Benjamin Franklin, one of the signers of the Declaration of Independence, helped start is considered the first formal co-operative business in the United States (Cobia 1989).

It is not clear who first thought of identifying and proposing the concept and content of co-operative principles. However, it is generally agreed that current-day principles evolved from “rules of conduct and points of organization” put forth by the Rochdale Society, probably for the first time in its. The Rochdale Society continued to evolve from its founding in 1844 during the 16 years up to its 1860 publication and thereafter. The Rochdale principles are a set of guidelines that grew out of the experience of the Rochdale Society. This co-operative operated for the first eight years under the Friendly Societies Act of British law. In 1852 they incorporated. The 28 founders of the Rochdale Society, often called the Rochdale pioneers, were from a variety of profession such as cloth manufacturer, wool sorters, shoemakers, traders etc (Cobia 1989). Robert Owen assumed as father of co-operative movement. Co-operative movement in the Globe has already stepped into the hundred and sixtieth year of its existence.

In India, it has a history of a century now since the enactment of “the Co-operative Credit Societies Act, 1904 (Act 10 of 1904)” under the British hegemony on Raiffeisen model borrowed from Germany (Bandyopadhyay 2004). In Nepal, from ancient period such co-operative practices were found on different forms such as Dhikuti, a kind of credit co-operative societies. But formally, organized co-operatives are established in Chitwan district in 1958. After 1991, so many co-operatives, especially credit co-operative have come into existence.

2. Dairy Co-operative: an Overview

In India dairy co-operatives were formed after 1912 but the real beginning was made only after the Second World War. The Kaira District Co-operative Milk Union which is popularly known as AMUL was the first producer oriented union organized in 1946. Nowa-

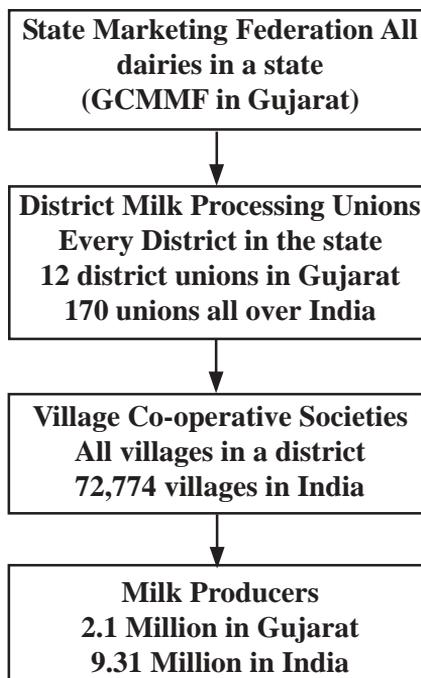
days, in India more than 1, 01,427 primary milk co-operatives with 10 million milk producers are covered under the dairy co-operative and 176 milk unions are collecting daily about 1.58 corers of liters of milk, which give income to the rural community (Koli 2003). AMUL meant priceless in Sanskrit (Manikutty 2002). Gujarat Co-operative Milk Marketing Federation Ltd (GCMME) play vital role for milk marketing in Gujarat. Kaira District Co-operative Milk Producers' Union Limited is the foundation of GCMME. Need for development of suitable manpower for various activities related to dairying was realized since the early years of organized dairying in India. For fulfillment of such purpose Imperial Institute of Animal Husbandry and Dairying was established in 1923 in Bangalore. The education network comprises 10 dairy Science Colleges, 31 Veterinary Colleges and over 80 Agricultural Colleges and Research Institutions affiliated to 25 State Agricultural Universities (Mathur 2000). The first formal farmer co-operatives were formed in 1810- a dairy co-operative started in Goshen, Connecticut, and a cheese manufacturing co-operative in South Trenton, New Jersey, USA (Cobia 1989). In 1991 HMG/Nepal managed co-operative institutes/activities through co-operative act. Then, peoples are interested to establish milk co-operatives in Nepal.

In Indian context, in 1954, Kaira District Co-operative Milk producers' Union built a plant to convert surplus milk produced in the cold seasons into milk powder and butter. In 1958, a plant to manufacture cheese and one to produce baby food were added. Subsequent years saw the addition of more plants to produce different products. In 1973, the milk societies/district level unions decided to set up a marketing agency to market their products. This agency was the GCMMF. It was registered as a co-operative society in July 1973. It had, as its members, the district level milk unions. No individual could become a shareholder in GCMMF. There are different types of organization structure. Different countries adapt different types of organization structure. Anand Pattern of co-operative organization structure is popular all over India. GCMMF is the state level federation for Gujarat. At the top level of structure has state marketing federation, which consists of district level milk unions (and certain other milk unions from other states) as members. The state level organization is called the Federation. The Board of Directors of the Federation consisted of the Chairpersons of the district level co-operatives as the members, and in addition, the following ex officio members:

1. The Registrar of co-operative of the State concerned.
2. A representative from the National Dairy Development Board (NDDB), which is a body created by the Government of India to replicate the Anand pattern in other states of India.
3. One nominated technical expert.
4. The Managing Director (CEO) of the State level federation.

Here, we discussed about the structure of Anand pattern because it is not only famous in all over India but also more convenient structure for dairy farmers/producers. This pattern is shown in Fig. 1 (Manikutty 2002).

The Anand Pattern



In other world, cows play a vital role for milk production (Sharma 1999). Cow milk represents about 86 per cent of world milk production. Other important animal species supplying milk for human consumption are buffaloes (10.3%), goats (2.2%), sheep (1.5%), and camels (0.2%). Buffalo milk production is concentrated in Asia, especially in India. Approximately 72 per cent of cow milk production is concentrated in developed countries like European Union and United state. India has become the largest producer of milk in the world with an estimated production of 74 million tones in 1998. India has been exporting small quantities of skimmed milk powder, whole milk powder, ghee and butter. India, at recent, is not able to compete with the EU and the United State in export of dairy products mainly due to heavy subsidies on exports of dairy products.

There are so many problems in dairy sectors. Most of the problems are concerned with the developing countries. However, milk and milk product is very popular product in the world. Dairy products today are tailored to the changing social and dietary habits of people in different parts of the world. Recent research reveals that milk is indeed a treasure chest of some 2000 ingredients. International trades represent about 5-6 per cent of the global milk production. The major products, which are traded internationally, are skimmed powder, whole milk powder, butter, cheddar, and cheese. European Union dominated the world trade with about 37 per cent of world dairy exports of milk powders, butter and cheese, followed by New Zealand (21.8%) and Australia (11.6%) during 1995-98. But the share of European union in the world dairy exports declined (36.6%) in the post –URA period (1995-98) as compared to pre-URA period (41.5%). In contrast, the share of New Zealand and Australia increased from 18.2 and 8.9 per cent in 1991-94 to 21.8 and 11.6 per cent in 1995-98, respectively. These data suggest that EU, currently the world’s largest

exporter of dairy products, will pose market share to non-subsidizing countries like New Zealand and Australia. On import side, Russian Federation, Mexico and Brazil are the largest importers of dairy products. One study result showed (Hendrickson et. al 2001), in 1988, the largest four firms (Borden, Dean Foods, Labatt Foods and Kroger) had about 26 per cent of the fluid milk sales in the USA. Although there remained over 200 operating dairy co-operatives, that number was down considerably from 1,000 operating 50 years earlier. A study showed (Ludhiana city) that (Khattra and Kaur 1995); break-even number of animals per dairy farm portrayed direct relationship with herd-size and was inversely related to the distance from the urban area. Dairy farming is mainly based on private investment by individual entrepreneurs who are primarily motivated by the considerations of relative profitability for allocation funds to the business.

3. Practices and Problems Faced by Different Co-operatives

Milk is an essential liquid for humankind. It needs to human from birthday to old ages. It has so many ingredients which we can use for making others groceries/edible items as well as use in some types of medicine. It has great demand in market but production and marketing of milk functions are not easy task. Milk producers as well as marketers have been faced so many problems and challenges. Different countries have different types of problems. The result showed that milk production from indigenous cattle in Udham Singh Nagar district of Uttaranchal found a highly unprofitable business (Bardhan 2004). Net return over total cost on an overall average basis was found to be negative for all the three seasons. Some pertinent constraints to successful dairying were identified. The major factors, which contributed to unprofitable milk production, were high cost of feeds and fodder and non-remunerative prices of milk paid by the dairy co-operatives (Shah 1992). The managers of Indian dairy co-operative have always been facing the problems of procurement pricing. The problem is complex because milk contains two valuable nutrients: fat as well as proteins and other micro-nutrients clubbed as solids-non-fat (SNF). The early dairy co-operatives in Gujarat simplified this complex decision by paying for milk only based on fat tests, which were quite easy and cost effective to conduct through the Gerber method. But pricing of milk is not easy task. Because fat is not only factors which is used to determine the price of cow and buffalo milk. Cow milk has less fat rather than in buffalo milk. Cow farmers have always suffering from low pricing. Some problems come from external environment. Due to a change in economic system of the world, dairy co-operatives have been facing new challenges. Economic liberalization, open market, globalization, WTO, etc are the major factors that create such problems (Lopoyetum and Velanganni 2004). After introducing the policy of economic liberalization and globalization, co-operative organizations faced different types of challenges. In Indian context, liberalized economic policies have posed threats due to the removal of protectionism. Co-operative organizations are facing others threats also. They may not able to compete with the international low cost and high standards goods. Limited resources, lacks of skilled and trained manpower are others challenges of the co-operative organizations. High establishment cost and low margin, absence of professional management, prevalent administrative inefficiency, illiteracy etc are other weakness of the co-operative organizations in India. Developed countries likes Britain and France have also been facing other types of problems (Pattison and Lingreen 2004). The

failures in dairy company performance over the last ten years are simply a side effect of the process of industry evolution under the increasing pressures of supermarket buying power and the exit of dairy farmers from the industry. The quota factor is less important now, although it was more serious in France in the 1980s, as 14-17 percent reduction in the overall quota starved out certain processor of raw materials. If dairy companies neglect to watch product innovation, added value products, good accounting, quality control, entrepreneurial spirit and managing risk, then they will also have difficulty in surviving. Developing countries like India have been facing other major problem like economic impact of WTO agreement on the dairy sector (Sharma and Datta 1999). Some major economic problems are the impact of provision requiring reduction in domestic support; impact of tariff and minimum access requirements; impact of provisions requiring lower export subsidies, and impact of sanitary and phytosanitary measure. In Germany, there has not faced so serious problems (Vignail, et al 1999). Problems of dairy sector are not only concern with the developing countries, but also concern with developed country like New Zealand. The farmers of New Zealand also have been suffering from different types of problems (Adcock 2003). They have been demanding for lower taxation, less paperwork, lower interest rate on bank loan, and equality. They have wanted to take more benefits through resources management act. Most of the farmers proposed the merger of the New Zealand dairy and KIWI co-operative dairies, and the Dairy Board. However, the Commerce Commission rejected that proposal. Workers who are involved in co-operative sector also faced various types of problems (Knight 1996). There is no good relationship between workers and their clients. To solve such problems and reduced dependency on outside agencies is, for co-operatives, to develop a wider membership. A multi-stakeholder co-operative is a business, which is owned and controlled by more than one group. In the United State, some problems have appeared (Hendrickson, et al 2001). Borden belongs to DFA (national dairy co-operative); its ownership creates some interesting problems and criticism for the new co-operative in USA. DFA, the largest dairy co-operative, was drawn into James Servais et al. Kraft Foods, a lawsuit that seeks billions of dollars for damages to dairy farmers who received lower milk prices because of Kraft's manipulation of the National Cheese Exchange. Farmers of USA also faced other types of problems.

4. Strategic Planning for Dairy Co-operative

Strategic planning is a detail planning which facilitates to achieve organization goals in effective as well as efficient way. Nowadays, this concept is widely used in business fields. The concepts of strategy and strategic planning are also widely used in dairy co-operative sector. In global market, WTO has been playing a vital role. It creates opportunities and challenges to business especially in developing countries (Lopoyetum 2004). Liberalized economic policy and globalization has created larger markets for co-operatives. It is great opportunities to co-operative. The dairy sector is economically important not only in developing countries but also in industrialized countries. Two-third of milk production is concentrated in the developed countries. As having different in nature of the problems in dairy co-operatives so strategic planning on these sectors also different in between developed countries and developing countries.

Developing country like India must give emphasis on dairy education and training.

(Mathur 2000). The expanding dairy industry, privatization of enterprises and globalization of the economy will result in increased demand for people training in specific areas of dairying. Production experts conversant with modern bio-technology will be required to deliver results at field level and make dairying a profitable enterprise. In developing countries like India, dairy co-operative plays a vital role to alleviate poverty. Warana Milk Co-operative Union plays a vital role to alleviate poverty in 220 villages from Kolhapur and Sangali district, Maharashtra. The Warana milk is famous for its taste and quite popular in Pune and Bombay. To cope with the challenges and problems of dairy, dairy co-operatives should formulate strategic planning. It may be different in term of nature of the countries. Problems of dairy co-operative of developing countries may differ with the problems of developed countries. Therefore, separate strategic planning will be formulated for these countries. For developing country like India, separate strategic planning may be formulated (Lopoyetum and Velanganni 2004). In the context of economic liberalization and globalization, effort must be made to either revitalize or liquidate the existing weak cooperative societies and encourage only viable and profitable ones. Outsourcing can be utilized wherever possible by the co-operative organization; share capital assistance by government must be reduced. It must reduce government interference in co-operative societies. On the other hand, fulfillment of customers' aspirations and expectations is the paramount factor in any business. In order to attain this objective, the Total Quality Management is of vital importance. In order to boost milk sales (Sivasubramanian 2001), these suggestions are made: i) expansion of the retail network, ii) extensive use of hoardings, iii) display through neon signs, wall posters and bill boards, iv) testing quality on demand by consumers, and cash incentive schemes. India is one of the countries who produce highest volume buffalo milk in the world. However, it has low productivity ratio. Strategic planning (Prasad 2003) such as replacement of low yielding and inefficient local with high yielding and efficient developed milch breeds, arrangement of quality feeds and fodders, control over disease, fixation of optimum herd size, financial assistance to farmers, organization of adequate training program, and the improvement of housing condition of the milch animals can be adapted to increase production volume of milk. Problems regarding milk pricing may be solved by alternative ways. It is essentially a technological problem; and therefore, productive application of two axis pricing must wait until the discovery of cost effective ways of conducting rapid and accurate SNF tests at the village level (Shah et al 1992). Such application must be accompanied with the tighter and more comprehensive means to contain dilution of milk supplied to the co-operatives.

In corporate level, different types of strategy can be adopted (Karki 2004). Corporate strategy in Indian organization in the coming decade is "Being honest + being world class + India focus, Being honest + Being world class + India diversified, and Being honest + Being world class + Global focused (Hendrikson et al 2001), takes the dairy sector in the USA as case study in the restructuring of the retailing and processing sectors (Pattisson et al 2004). The findings suggest the following opportunities as the best development potential for the dairy industry in the south west England: mature dessert; and yoghurts, fromage frais and crème fraiche.

A second tier of opportunities could take place through new on-farm processing; expansion of the product range of existing companies; expansion of the Davidstow Cream-

ery as a producer of mature cheddar; and new “green field” site development by new entrants. To take competitive advantage from agro-food different types of strategies also formulate in the different countries (Morley,et al 2001). Some strategies are also formulate such as the establishment of competitive to local agro-food producers and processors; the enhancement of premium products; and the assurance that processing activity occurs locally, benefiting the local economy. In the view point of logistics in relation to strategy in dairying, some others factors are also consider. (Sankaran et al 2003). Co-operatives were forced to better measure their own costs, which in turn, facilitated better tracking and management of the same. The information on cost was updated regularly, which has been deemed important if total-cost decisions are to be made successfully. The value of the cost models as a benchmarking mechanism was widely accepted by the industry. The co-operative ownership of the dairy companies would appear to be a doubled-edged sword with regard to the implementation of the total cost concept. The study clarifies that the New Zealand dairy co-operatives and the (export-oriented) New Zealand dairy industry as a whole, have generally followed a strategy of cost leadership. The various ways in which efficiency has been realized in logistic in the industry, and especially dwell on how the structure, e.g., co-operative ownership, vertical integration, of the dairy industry has supported and/or hindered the focus on cost leadership.

5. Conclusions

Dairy cooperative is a very popular business not only in developing countries but also in developed countries like the USA, Germany etc. Develop countries produce cow milk and developing countries like India produce buffalo milk. These countries are produced different types of dairy product like cheese, ghee, whey product, cream, solid milk, milk powder etc. Developed countries focus on qualities of product but developing countries often focus on quantities/volume of production. Before launching the concept of WTO, economic liberalization, open market most of the problems of dairy cooperatives/industries have been faced same types of problems. After introduction of WTO, its impact has shown differently. Most of the dairy cooperatives of developing countries have been suffering from global competition. They can not compete with the developed countries. In India, most of the dairy cooperative have used Ananda pattern of organization structure. This pattern facilitates to operate dairy cooperative successfully. Developing countries have been given emphasis on internal improvement such as improvement in management, increase in production volume, improvement in quality of product. Developed countries have been giving emphasis on the enhancement of dairy product and market expansion. So, strategic planning of developing countries are, generally, to increase production volume of buffalo milk, to bring about the internal improvement in cooperative societies, to reduce cost of production, and to provide quality service to consumer through skill, trained and educated manpower, e-commerce. Strategic planning of developed countries is quite different from the strategic plan of developing countries. Their strategic planning is to merge different dairy cooperative societies/institutions into a dairy cooperative, and to compete in the global market with quality of products.

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