

---

# Support for Farmers' Cooperatives

---

*Case Study Report*  
**Campina-Arla  
Foods & DMK-DOC  
Kaas:  
international  
merger attempts**

---

Pieter Willem Blokland  
Harold van der Meulen  
Jos Bijman

---



The 2011-2012 project „Support for Farmers’ Cooperatives (SFC)“ has been commissioned and funded by the European Commission, DG Agriculture and Rural Development.

Contract Number: 30-CE-0395921/00-42.

The SFC project is managed by Wageningen UR’s Agricultural Economics Research Institute LEI and Wageningen University. Project managers: Krijn J. Poppe and Jos Bijman.

Other members of the consortium are:

- Pellervo Economic Research PTT, Finland: Perttu Pyykkönen
- University of Helsinki, Finland: Petri Ollila
- Agricultural Economics Research Institute, Greece: Constantine Iliopoulos
- Justus Liebig University Giessen, Germany: Rainer Kühl
- Humboldt University Berlin, Germany: Konrad Hagedorn, Markus Hanisch and Renate Judis
- HIVA Katholieke Universiteit Leuven, Belgium: Caroline Gijssels
- Rotterdam School of Management, Erasmus University, The Netherlands: George Hendrikse and Tony Hak

How to cite this report:

Blokland, P.W., H.A.B. van der Meulen, and J. Bijman (2012). Support for Farmers’ Cooperatives; Case Study Report: Campina-Arla Foods & DMK-DOC Kaas: international merger attempts. Wageningen: Wageningen UR.

Disclaimer:

*This study, financed by the European Commission, was carried out by a consortium under the management of LEI Wageningen UR. The conclusions and recommendations presented in this report are the sole responsibility of the research consortium and do not necessarily reflect the opinion of the Commission or anticipate its future policies.*

Support for Farmers' Cooperatives  
*Case Study Report*  
**Campina-Arla Foods & DMK-DOC**  
**Kaas: international merger attempts**

Pieter Willem Blokland  
*LEI Wageningen University, The Netherlands*

Harold van der Meulen  
*LEI Wageningen University, The Netherlands*

Jos Bijman  
*Wageningen University, The Netherlands*

November 2012

Corresponding author:

Pieter Willem Blokland  
LEI Wageningen UR  
Agriculture and Entrepreneurship  
Alexanderveld 5  
2585 DB Den Haag,  
The Netherlands  
E-mail: [pieterwillem.blokland@wur.nl](mailto:pieterwillem.blokland@wur.nl)

## **Preface and acknowledgements**

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on the attempted international mergers between dairy cooperatives Campina-Arla Foods and DMK-DOC Kaas.

Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank the former chairman of the Board of Campina and current chairman of the Board of DOC Kaas for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives. They also like to thank Professor Jerker Nilsson, Swedish University of Agricultural Sciences, Uppsala, Sweden, for sharing his insights on the merger attempt between Arla Foods and Campina.

## Table of contents

1. Introduction.....	6
1.1 Objective and research questions .....	6
1.3 Method of data collection .....	6
1.5 Structure of the report.....	6
2. International strategies of dairy cooperatives: a brief overview .....	7
2.1 Introduction .....	7
2.2 International strategies of dairy cooperatives .....	7
2.3 Cross-border mergers.....	8
3. Case 1: Campina-Arla Foods .....	9
3.1 Introduction .....	9
3.2 Merging arguments.....	9
3.3 The merging process .....	9
3.3.1 Economic facilitating and inhibiting factors.....	10
3.3.2 Social facilitating and inhibiting factors.....	10
4. Case 2: DMK-DOC Kaas .....	12
4.1 Introduction .....	12
4.2 Merger arguments .....	12
4.3 The merging process .....	12
4.3.1 Economic facilitating and inhibiting factors.....	13
4.3.2 Social facilitating and inhibiting factors.....	13
5. Overall conclusions.....	15
References.....	17

## List of abbreviations

IOF	Investor Owned Firm
SFC	Support for Farmers' Cooperatives
CEO	Chief Executive Officer
CFO	Chief Financial Officer



# **1. Introduction**

## **1.1 Objective and research questions**

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, particularly for farmers and their representatives, but also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income (Bijman et al., 2012).

The objective of this study is to create insight in and identification of the reasons for success or failure in attempted international mergers between dairy cooperatives in Europe.

This report will focus on two attempted international mergers of dairy cooperatives. For this case we focus on the attempted mergers between Arla Foods-Campina (2005) and DOC Kaas-DMK (2011).

The original interest from the commission and central research question is:

Are there issues in international cooperative law that hinder international mergers, or are failed merger attempts the result of, quite normal, problems in mergers.

The study also aims to verify several hypotheses:

1. Managers of cooperative firms have a decisive influence in the merge process.
2. Different ownership structures of the merging cooperatives influence the success of the merger.
3. Cooperatives with different strategies and/or business models are more interested in merging than cooperatives with similar strategies.

## **1.3 Method of data collection**

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country reports of the Support for Farmers’ Cooperatives project, popular press and electronic media, various archives and other sources of information.

Additional information has been collected through personal interviews with various cooperative stakeholders. For this particular study, board members and managers of Campina and DOC Kaas have been interviewed. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

## **1.5 Structure of the report**

In chapter two a brief literature description is given of international strategies and cross-border mergers of dairy cooperatives. Chapter 3 describes the Campina-Arla Foods merger and Chapter 4 discusses the DOC Kaas – DMK merger. Finally the general conclusions and hypotheses of the two cases will be given and discussed in chapter 5.

## 2. International strategies of dairy cooperatives: a brief overview

### 2.1 Introduction

In this chapter a brief overview of the international strategies and cross-border mergers of dairy cooperatives is described. This chapter is based on the scientific literature available about strategies and cross-border mergers.

### 2.2 International strategies of dairy cooperatives

Dairy cooperatives are faced with a rapidly changing (international) market conditions. In changing markets dairy cooperatives need to adapt their strategies in order to survive. Porter (1980) distinguished three main strategies, namely: cost leadership, differentiation and focus strategies. All these three are common in the dairy industry, and all of them are used by dairy cooperatives (Nilsson and Ollila, 2009).

The reason why dairy cooperatives go internationally are generally the same as for non-cooperative firms. The main reasons are: increasing the firm's market share, enhancing average sales price and reducing or diversifying risk (Buccola et al., 2001; Donoso, 2002). The reasons for going international may apply to dairy cooperatives, the strategies chosen to reach these goals can be very different. Van Bekkum and Nilsson (2000) suggest that cooperatives may respond differently to trade liberalization and agricultural policy reform, i.e. market conditions.

Van Bekkum and Nilsson (2000) defines cooperative models according to three strategic and structural dimensions (degree of differentiation, degree of horizontal focus and degree of collectivity-individualised):

- *Traditional cooperative*: primal cooperative as most cooperatives were established. Mainly small and local-oriented cooperative with limited specific product requirements. It combines a focus strategy with internal organisation based on collectivity and equality.
- *Countervailing power cooperative*: most common form of cooperative. This cooperative evolved from traditional cooperative into a countervailing cooperative by internal growth and mergers. It follows a cost leadership strategy. Economies of scale are important.
- *Ideal entrepreneurial cooperative*: represents closely Porter's differentiation or market leadership strategy. These cooperative invest in processing and marketing and serve top consumer market segments. Entrepreneurial cooperatives are large, though relatively not as big as countervailing power cooperatives, because their investments in R&D, brands, logistics etc. require a broad basis.
- *New generation niche cooperatives*: apply the focus-differentiation strategy and invest in speciality markets. Investments per member are high, delivery conditions strict and membership closed.

The reaction of cooperatives to changing market conditions depends on the above model chosen by the cooperative. For instance, countervailing power cooperative will probably expand their volumes, e.g. through cross-border mergers. They also can choose to transform into the entrepreneurial model. These cooperatives will seek to intensify value-added processing to reduce their dependency on commodity markets (Van Bekkum and Nilsson, 2000).

To answer what strategies European dairy cooperatives develop towards internationalisation, a study was conducted in five European countries (Guillouzo and Ruffio, 2005). Six main strategies towards internationalisation are identified:



1. *Raw material procurement.* Cooperatives need larger volumes of raw material for example in case of insufficient domestic production.
2. *Foreign market diversification.* Finding growth outlets for existing products and making up for saturation of the domestic market.
3. *Taking advantage abroad of a commercial asset or know-how.* The aim of this strategy is to take advantage of a commercial success achieved on the domestic market.
4. *Activity oriented leadership.* Implies that a firm, working in a well-defined market with specialty products tries to expand the market size, thereby acquiring economies of scale (Nilsson and Ollila, 2009).
5. *Extending the domestic market to Europe.* Exporting products to (mostly) neighbouring European markets.
6. *The multinationalisation approach.* Cooperatives that sell high value-added products (brands) all over the world. There is no longer any difference with a non-cooperative dairy multinational.

With respect to the above it can be stated that each dairy cooperation, dependent of its situation (market, model) chooses the strategy which best fits its resources available and which generate the most competitive advantage.

## 2.3 Cross-border mergers

The creation of transnational cooperatives can be done in different ways (Madsen and Nilsson, 2007). By far most transnational cooperatives in Europe have come into being as one cooperative has recruited members in another country. Acquisition of a firm in another country by a cooperative is another way to form a transnational cooperative. The third option is when farmers in two or more countries establish a new cooperative society. The fourth option is when cooperatives in different countries merge.

The first three options of creating a transnational cooperative, to compete with multinational IOFs, are insufficient (Madsen and Nilsson, 2007). Recruiting foreign members is a slow process; acquisition requires most often more capital than the cooperatives have; new establishments result in just small operations. In order to create large, competitive agribusiness firms cross-border mergers between cooperatives can be more interesting than the other options. A cross-border merger can be established relatively quick and requires less investments. Recent examples of such cross-border mergers in the dairy industry are Arla-MD Foods into Arla Foods and Friesland Foods-Campina into FrieslandCampina.

The reasons why cooperatives merge can be divided into two categories, namely economic and social facilitating and inhibiting factors. Madsen and Nilsson (2005) distinguished nine economic factors that affect the business operations of merging cooperative firms. One of the factors is that the merging cooperatives do not differ very much in financial status, financial instruments and other strategic business factors. Also the difference between legislation between countries is important. The less difference there is in legislation, the chance of a successful merger is higher.

Social variables can also have a big influence on the merger process. When cooperatives merge, different than IOFs, it is not only a matter of joining two business firms, but also joining two cooperative societies. A cooperative society is an organisation for collective ownership of a business firm (Madsen and Nilsson, 2007).

This makes the merging process complex because there can be differences in cultural aspects between the members as well as the CEO's and Board of Directors. Madsen and Nilsson (2005) distinguishes besides economic factors also social factors for successful cross-border mergers.

For example, similar cultural aspects and personal chemistry between the management have a positive effect on the merger.

### **3. Case 1: Campina-Arla Foods**

#### **3.1 Introduction**

In December 2004 the Dutch and Danish dairy cooperatives Campina and Arla Foods announced the willingness to merge with each other. By merging the two companies the world's biggest dairy cooperative would arise. The new dairy cooperative Campina Arla would have had a turnover of about 10 billion euros, 28,000 employees and 21,000 members (dairy farmers).

In April 2005 the merge attempt was ended. In this chapter the reasons for the ending of the merge will be addressed.

#### **3.2 Merging arguments**

As mentioned before, the two cooperatives together would be the largest in the world. Based on the press release of Campina and Arla (Campina, 2004) some business advantages were used as arguments to merge:

- Economies of scale
- Better use of R&D means
- Better financial position
- More benefits to members (milk price)

Because of the economies of scale the effectiveness of the production would be improved and administration costs will decline. Also the labour potential in the company could be utilized more efficient. The R&D budget could be put in more efficiently and together with a better financial structure this could provide more benefits to the member dairy farmers in the way of a competitive milk price.

The fusion process was initiated by the CEO's of Campina and Arla (Wantenaar, 2012). In case of Campina there was a clear strategy behind it. The cooperative had the strategy to merge with another dairy cooperative if this company fitted in the value added strategy of Campina. According to Wantenaar, Arla and Campina had the same strategy to create value added dairy products.

#### **3.3 The merging process**

In April 2005 Campina and Arla Foods communicated that the attempt to merge failed. Different reasons for the failed merger were picked up by the press or communicated to the members of the two cooperatives. By analysing publications in newspapers/websites/journals and on the basis of inside information (Wantenaar, 2012) the main reasons for the failed merger were:

- Different financial structures of the cooperatives in combination with different accountancy laws between the Netherlands and Denmark;
- The new head quarter would be established in Copenhagen rather than in Aarhus;
- Relational difficulties between the management of Campina and Arla.

Based on literature about international mergers of cooperatives these above reasons can be divided into two categories (see section 2.3):

1. Economic facilitating and inhibiting factors

## 2. Social facilitating and inhibiting factors

### 3.3.1 Economic facilitating and inhibiting factors

Many cross-border mergers between cooperatives have an economic reason. The management, board and members all strive to improve profitability. In the case of Campina and Arla economic reasons also played an important role (see section 3.2).

In the case of Campina and Arla there were differences in the financial structure of the cooperatives. Campina's financial structure existed roughly of unallocated equity and allocated equity to farmers. Arla had only unallocated equity. Arla did not have allocated equity to farmers (Nilsson, 2012).

According to Dutch taxation law the unallocated equity is seen as own equity of the cooperation. According to Danish law this unallocated equity is seen as a debt to the cooperative. This meant that the financial position of Campina was/became much poorer than that of Arla, according to Danish law. Ironical detail about this is that the issue was discovered by a Dutch farmer that emigrated to Denmark (FEM Business, 2005).

In reaction to this equity issue, the merging cooperatives tried to introduce the financial structure into the new cooperative Campina Arla. During this process the trust between the Arla members and the board was damaged. The Arla members blamed the board that the financial structure issues were not taken seriously during the beginning of the merging negotiations.

### 3.3.2 Social facilitating and inhibiting factors

During the merger process the relation between the Dutch CEO, CFO and Danish management was not optimal. According to insiders, the strong personality of the Dutch CEO was a factor in this relation (Nilsson, 2012). During the merger between Campina and Friesland Foods in 2008/2009, Friesland Foods demanded that the Campina CEO would resign (Financiële Dagblad, 2007). Madsen and Nilsson (2007) describes this as personal chemistry. In the case of Campina Arla there was a lack of personal chemistry.

The headquarter issue played also an important role in the failed merge attempt. This is also due to social factors. During the negotiations between the cooperatives, Copenhagen was declared as the preferred place for the headquarter instead of Aarhus. This was not accepted by the Danish board members, however the Swedish board members preferred Copenhagen. This meant that there was a disagreement within the Arla Board and this did not contribute to a successful merger. This difference of opinion is shown in Table 1. In the table the results are presented of a survey among the Swedish and Danish delegates in Arla Foods' Board of Representatives. The results clearly show the difference between the Swedish and the Danish representatives. The Swedish representatives were more positive about the merger than the Danish. Especially the difference in opinion about the location of the headquarters is interesting.

*Table 1: Findings from a survey among Swedish and Danish delegates in Arla Foods' Board of Representatives (Source: Davidson & Ingvarsson, 2005, p 5)*

		Swedish delegates	Danish delegates	All delegates
What is your opinion about the fact that the merger between Arla Foods and Campina was cancelled?	Good	12.5%	48.7%	33.6%
	Bad	78.6%	37.2%	54.5%
	Don't know	8.9%	14.1%	11.9%
How would you vote if there was a proposal to vote about?	Yes	64.3%	38.5%	49.3%
	No	5.4%	23.1%	15.7%
	Don't know	30.4%	38.5%	35.1%
Do you have confidence in the Board of Directors?	Yes	71.4%	83.3%	78.4%
	No	19.4%	5.1%	11.2%
	Don't know	8.9%	11.5%	10.4%
Do you feel that you have any influence in your role as a member?	Yes	96.4%	78.7%	85.8%
	No	1.8%	9.0%	6.0%
	Don't know	1.8%	12.8%	8.2%
Do you think that the headquarters should be located in Aarhus?	Yes	14.1%	75.6%	50.0%
	No	76.8%	10.3%	38.1%
	Don't know	8.9%	14.1%	11.9%

Taken from Nilsson and Madsen, 2005

According to Campina representatives (Wantenaar, 2012), the main reason for aborting the merger was the differences between the Swedish and the Danes within Arla Foods. Arla merged with MD Foods into Arla Foods in 2000. In 2004 the negotiation between Campina and Arla started. This seemed to be too soon.

This resulted mostly in the headquarters discussion. The Swedes wanted to "break" the control of the Danes in the cooperative. Still the majority of the employees/management of Arla were Danish. The merger with the Dutch was a good moment to get more equal control in the (new) cooperative.

The Danes on their turn began to understand that they would lose control in the cooperative to the Swedes and the Dutch. According to Campina they wanted to bail out of the merger.

This resulted in the difficult merger negotiations also addressed in section 3.3.1. According to Campina all the difficulties in the merger with financing, regulation and so on were solvable. Arla Foods began, in the eyes of Campina, to search for excuses not to merge. For example, the personal chemistry between the Dutch CEO and CFO and the Danish management was bad because the Dutch had a solution to all the problems that came up during the merger. This made them arrogant in the eyes of the Danes, who wanted to abort the merger. Eventually the two parties concluded that merging was not an option and ended the merger negotiations.

## 4. Case 2: DMK-DOC Kaas

### 4.1 Introduction

In October 2011 the German dairy cooperative DMK and the Dutch dairy cooperative DOC Kaas announced a merger. The new cooperative would have had a milk volume of a total of 7,5 billion kg. DOC Kaas processes almost 1 billion kg of milk with respect to DMK who processes 6,8 billion kg of milk. Together the cooperatives have about 13.000 farmer members and 4.4 billion euro turnover. This would result in a new German-Dutch transnational dairy cooperative next to FrieslandCampina.

In November 2011 the merger attempt was ended because the members of DOC Kaas rejected the merger proposal. In this chapter the reasons for the rejection of the merger will be addressed.

### 4.2 Merger arguments

*"Against the background of consolidation in the European dairy industry, it is more important than ever before to combine forces across national borders in order to open up key non-European markets"*

*"DOC Kaas is a cheese specialist. We have adopted the ambitious aim of further strengthening our position. Our cooperative members can still count on a competitive milk price, continuity and growth in the future."*

These two quotes were spoken by the two CEO's of the cooperatives (DMK press release, 2011). In terms of a cooperative model, see chapter 2, this new cooperative could be stated as a countervailing power cooperation. The main reason why these two cooperatives would like to merge is to secure the future of the cooperatives and create continuity and a higher milk price.

According to the chairman of the Board of DOC Kaas, the environment in which the cooperatives act is rapidly changing. Customers of the cooperatives are concentrating into trade blocs and getting smaller in number. To countervail these developments in the market, the cooperatives strategy was to merge in order to consolidate their market position. The interest of the cooperative members play a very important role (Schimmel, 2012).

Many cooperatives have an organisational model that separates the cooperative (members) and the business (company), for instance FrieslandCampina. DOC Kaas does not have this separation between business and members. The intention of DOC Kaas and DMK was to separate the cooperative and the company of DOC Kaas in the merger. In this way the cooperative of DOC Kaas members would fall under Dutch legislation and would have had a share of 15% in the new business.

### 4.3 The merging process

The merger attempt between DMK and DOC Kaas is relatively recent. The merger started in October 2011 and ended in November 2011 because the members of DOC Kaas rejected the merger. Within DMK the merger was already approved (Schimmel, 2012). This is why we only look at this merger from the perspective of DOC Kaas in this section.

The merger was initiated by the two CEO's of the cooperatives. Within DOC Kaas the CEO is responsible for the strategy and also for the merger negotiations (Schimmel, 2012). This is stated in the statutes of DOC Kaas. Also stated in the statutes is that at least two third of the members of DOC Kaas have to approve the merger. Every member of DOC Kaas has the right to vote. At DMK the governance structure is different than DOC Kaas. At DMK the Board of

Directors and the Board of Representatives is allowed to decide about the merger as representatives of the German members (Schimmel, 2012).

The internal governance of DOC Kaas is structured according to the Management Model (Bijman et al., 2012). This model implies that the legally required board of directors consists only of the CEO. Members are represented in a supervisory board, called Raad van Beheer. This supervisory board has a different function than the board of directors in traditional cooperative governance models. In addition, there is a Member Council, performing most of the functions that General Assembly would perform in traditional cooperatives. Compared to the traditional governance model, the management model leads to a more distant relationship between the governance body that takes the main strategic decisions (i.e., the board of directors = the CEO) and the governance body that has to take the final decision on a merger (all members together in the General Assembly). We could speculate that this governance model has affected the information exchange with DOC Kaas about the proposed merger.

By analysing publications in newspapers/websites and on the basis of inside information (Schimmel, 2012) the main reasons for the failed merger were:

- Scepticism by DOC Kaas members about DMK because of the past realized milk price
- Time span of the decision to merge with DMK
- Communication difficulties about the merger to the DOC members
- Attention to the merger by the Dutch media and social media

Based on literature about international mergers of cooperatives these above reasons can be divided into two categories (see paragraph 2.3):

1. Economic facilitating and inhibiting factors
2. Social facilitating and inhibiting factors

#### **4.3.1 Economic facilitating and inhibiting factors**

One reason for the failed merger was the scepticism about the realized milk price by DMK in the past (Schimmel, 2012). DMK is formed by a merger between the German cooperatives Humana Milchindustrie and Nordmilch in April 2011. DOC Kaas members looked at the performance of these two cooperatives in the past and concluded that the milk price paid was lower than the price of DOC Kaas. This did not help in the merger process, however the merger should have had a positive effect on the milk price (Schimmel, 2012).

Another point of criticism from the DOC Kaas members was the lack of a financial plan with a perspective on the future milk price (Smit et al., 2012). This criticism was published in an open letter to the Dutch media by a group of DOC Kaas members. Especially the lack of financial results of the recently established DMK was a factor of importance. Members had not enough trust in the financial results of DMK.

Legislation issues in the transnational merger were small (Schimmel, 2012). The merger was halted in an early stage and no large bottlenecks between the Dutch, German and European legislation were discovered. The only differences in legislation between Germany and the Netherlands was legislation on food quality and animal disease control.

#### **4.3.2 Social facilitating and inhibiting factors**

Most important hindering factor in the merging process was the communication to the members of DOC Kaas and the attention of the (social) media (Schimmel, 2012).

Because of the statutes, DOC Kaas was obliged to inform every member of the cooperative, every member has a vote. The merger proposal had to be sent and discussed quickly to and with the members. The main reason for this speedy communication was the possible reaction to the merger of customers and suppliers. The fear was that the competitors, customers and suppliers would look for other alternatives or strategic options other than DOC Kaas and that this would disrupt the merger process. This made the time span of the merger decision tight.

Another factor in the decision process was that the Board of Directors could not give full information to the members about the merger. A lot of information is of strategic importance and competitors, customers and suppliers do not need to know this information (Schimmel, 2012).

For the members the time span of the merger decision and, in their point of view, lack of complete information was reason for a lot of discussion which resulted in the rejection of the merger. According to the statutes of DOC Kaas two third of the voting members must be in favour of the merger. Only 60% of the voting members voted in favour of the merger. This was still a big majority, but not enough.

The merger process was closely followed by the Dutch (social) media. Discussions about the merger were conducted in the media by as well journalist as members of DOC Kaas and other stakeholders.

Within the cooperation a group of farmers began to question the merger with DMK in the media and on social media. The Board of Directors of DOC Kaas could not easily manipulate this discussion. This might have influenced the opinion about the merger by the members.

Another, unexpected, discussion started when the chairman of the Board of Directors of DeltaMilk stirred up the discussion by offering a merger/collaboration with this dairy cooperative. DeltaMilk presented the Board of Directors of DOC Kaas a proposal to collaborate, but for DOC this was too late. The merger negotiations with DMK were already in an advanced stadium. After this proposal to the Board of DOC Kaas, DeltaMilk issued a press release with the message that DOC Kaas reacted negatively on their offer (Boerderij, 2011). This caused confusion among the DOC Kaas members and did not contribute to the merger process.

## 5. Overall conclusions

The main research question of this study was the following.: Are there issues in national and international legislation and policies on cooperatives that hinder international mergers, or are failed merger attempts the result of, quite normal, problems in mergers? Based on our findings , in the case of Campina-Arla Foods and DOC Kaas-DMK there were no important issues with cooperative legislation and policies. The mergers between the cooperatives basically ended before cooperative regulation became relevant. This does not mean that during the merger the cooperatives did not check whether cooperative legislation would be an obstacle. Before and during the mergers the parties checked whether their plan would encounter difficulties with cooperative legislation and competition law. Only small bottlenecks were encountered in differences in taxation, food safety and animal welfare legislation between EU member countries.

The interviewees (Wantenaar, 2012, Schimmel, 2012) provided some recommendations about the international cooperative legislation. They have noticed that the European Commission struggles with the understanding of the essence of a cooperative. Sometimes the result of a merger is such a large concentration on the national market that the European and national competition authorities demand conditions to the merger to reduce the concentration on the market. But the essence of a cooperative is that farmers cooperate in order to further common interests. The concentration in the food retail is becoming stronger, both nationally and internationally, and cooperatives should be able to find an appropriate response to this consolidation such as through (cross-border) mergers.

Looking at the cases, the failure of the merger attempts lies in a number of economic and social aspects. Social and relational aspects play an important role in the failed attempts. In the case of Campina-Arla Food there was a lack on personal chemistry and the discussion about the location of the headquarters was a result of a power conflict within Arla Foods. With the merger of DOC Kaas and DMK the most important issue was the communication to the DOC Kaas members. This was mostly a result of the cooperative structure of DOC Kaas. Each member had a vote in the merger and had to be informed. The Board of DOC Kaas was restrained in giving strategic information to the members and so the members felt that they were insufficiently informed. One may wonder whether the governance structure of DOC, having a so-called 'management model' board structure, has had an influence on the lack of communication between managers and members.

Economic aspects that had an influence in the DOC Kaas-DMK merger were scepticism about the realized milk price by DMK in the past and the lack of a financial plan. DOC Kaas members had not enough confidence in the performance of DMK with regards to the milk price and financial results. This did not help the merger process.

Interesting is de role of the (social) media in the merging process of DOC Kaas and DMK. Nowadays communication through the (social) media is becoming more and more common. Via internet (E-newspapers, Twitter, Facebook) the world is getting smaller and farmers can communicate more easily with each other. Also the speed of this communication is getting faster. The Board of DOC Kaas was not prepared for this and did not know how to deal with the discussions in the (social) media. This made the merging process more difficult for the Board. DOC Kaas has learned from this situation and will handle the communication differently in the future.



This study also aimed to assess a number of hypotheses as stated in section 1.1. In the next sections the three hypotheses will be briefly addressed.

#### *Managers of cooperative firms have decisive influence on the merger process*

In both the mergers the CEO's initiated the merger. Managers from cooperatives meet each other on a regular basis. These meetings are a good way of talking to each other and come to ideas of collaboration. The human aspect is important (Wantenaar, 2012).

In the case of Campina-Arla Foods managers/employees had a large influence on the merging process. The headquarters discussion is a good example. Most managers of Arla Foods were Danish and worked in Aarhus. The new cooperative would be established in Copenhagen. This meant that a lot of people had to move. Cultural differences between Aarhus and Copenhagen is rather large. So the pressure of the employees on the management was big. This had a significant influence on the failure of the merger.

#### *Different ownership structures of the merging cooperatives influence the success of the merger*

In the two cases, ownership/control structures played an important role. DOC Kaas is structured according to the Management Model (Bijman et al., 2012). Because of the structure/statutes of DOC Kaas, the Board had to inform all the members sufficiently and also did not give strategic information about the merger (see section 4.3). The DOC Kaas members felt they were insufficiently informed. At DMK the Board of Directors and the Board of Representatives are allowed to decide about the merger. This means that detailed, confidential, information about the merger are only available to the Board of Directors and Representatives. Still the Board of Representatives has to check the opinion of the other members.

In the case of Campina-Arla Foods the financial ownership structure was an issue. Arla Foods had only unallocated capital and Campina had a part unallocated and a part allocated (member) capital. In Dutch legislation this member capital is considered as equity capital. In Danish law this is not the case (see section 3.3.1).

The ownership structure had an influence on both the mergers, only on different grounds.

#### *Cooperatives with different strategies and/or business models are more interested in merging than more similar cooperatives?*

Campina and Arla Foods both had a value adding strategy (Wantenaar, 2012). This is also the main reason why the two cooperatives would like to merge (see section 3.2). So there were no differences in strategy. By having the same strategy the two cooperatives could strengthen their position on the market by for instance better use of R&D means and marketing investments

DOC Kaas and DMK are, regarding product strategy, different. DOC Kaas is strong in producing bulk foil cheese at low costs. DMK has a much broader product assortment with consumption milk, ice cream, yogurt, cheese etc. (DMK press release, 2011). The merger was initiated firstly for reasons of countervailing power. Together the two cooperatives could strengthen their position in the cheese market and DOC could use the marketing strategy, market access capabilities of DMK.

Based on the two cases there is no direct conclusion whether cooperatives with different strategies are more interested in merging. It depends on the individual merger case and the chosen strategies of the cooperatives involved.

## References

### Interviews:

Mr. J. Nilsson (professor Department of Economics, Swedish University of Agriculture Science, Uppsala, Sweden)

Mr. A. Schimmel (*Chairman Board of Directors DOC Kaas*)

Mr. C. Wantenaar (*Former chairman Board of Directors Campina and FrieslandCampina*)

### Literature:

Boerderij (31 October 2011). DeltaMilk biedt DOC alternatief voor DMK [online]

<http://www.boerderij.nl/Rundveehouderij/Nieuws/2011/10/Deltamilk-biedt-DOC-alternatief-voor-DMK-AGD575353W/>

Bijman, J., P. Pyykkönen, P. Ollila (2012). Support for Farmers' Cooperatives. *An EU wide analysis of transnational cooperatives*. Wageningen: Wageningen UR.

Bijman, J., G. Hendrikse, and A. van Oijen (2012), Accommodating Two Worlds in One Organization: Changing Board Models in Agricultural Cooperatives. *Managerial and Decision Economics* (forthcoming).

Buccola, S., C. Durham, M. Gopinath (2001). *Food manufacturing cooperatives overseas business portfolios*. Journal of Agricultural and Resource Economics, 26 (1), 107-124.

Campina (2004). Press release. <http://www.prnewswire.co.uk/cgi/news/release?id=135984>

Donoso, I. (2002). *The internationalisation of agricultural co-operatives; A source of conflict?* Australian Agribusiness Forum, Sydney November 13<sup>th</sup> 2002.

Financieel Dagblad (2007). *Nationale gigant in de zuivel*. 20 december 2007.

FEM Business (2005). *Zuivel: Gered door Arla*. Jaargang 8, nummer 17, 30-04-2005.

Guillouzo, R., P. Ruffio (2005). *Internationalisation of European dairy co-operatives*. International Journal of Co-operative Management, volume 2, number 2, December.

MADSEN, O. O. & NILSSON, J. 2007. Issues in cross-border mergers between agricultural co-operatives. Journal of Co-operative Studies, 40, 27-38.

Nilsson, J., O. O. Madsen (2005). *Cross-border Mergers Between Agricultural Co-operatives; a Governance Perspective*. Department of Management. Aarhus, University of Aarhus.

Nilsson, J., P. Ollila (2009). *Strategies and Structures in the European Dairy Co-operative Industry*. Journal of Co-operative Studies, 42.2, August 2009: 14-23.

Porter, M. (1980). *Competitive strategy*. Free Press, New York.

Smit, A., B. Otten (2012). *Letter to all members of DOC Kaas*.

Bekkum, O.-F. van, J. Nilsson (2000). *Liberalization of International Dairy Markets and the Structural Reform of European Dairy Cooperatives*. Paper International Food and Agribusiness Management Association, Chicago, June 24-28.