Support for Farmers' Cooperatives

Case Study Report

Agrial (FR), BayWa (DE) and Internationalisation

Maryline Filippi
Rainer Kühl

European Commission

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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 Gijselinckx
- Rotterdam School of Management, Erasmus University, The Netherlands: George Hendrikse and Tony Hak

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Maryline Filippi

Bordeaux University, INRA, France

Rainer Kühl

Giessen University, Germany

November 2012

Corresponding author:

Rainer Kühl
University of Giessen
Institut für Betriebslehre der Agrar- und Ernährungswirtschaft
Senckenbergstr. 3
35390 Gießen
Germany
E-mail: Rainer.Kuehl@agrar.uni-giessen.de

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 international strategy of Agrial (FR) and BayWa (DE) has been written.

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 directors and managers of Agrial and BayWa for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives.

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List of abbreviations

BayWA	**Bay**erische **Wa**renvermittlung landwirtschaftlicher Genossenschaften A.G., München
DIY	Do-It-Yourself business
CAP	Common Agricultural Policy
CMO	Common Market Organisation
PO	(recognized) Producer Organisation
OP	Operational Programme

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, 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**.** In the framework of this study, this report provides information on the internalisation strategies of the French and German multipurpose cooperative Agrial and BayWA.

This case study will focus on the comparison between two multi-purpose cooperatives and its structure and internationalisation strategy. These two companies are assumed to have gone through different developments in term of the structure and strategy in the various market segments of multi-purpose farm supply and marketing cooperatives. These differences or similarities may be due to differences in past developments, type of diversification, national competition, or in international exposure.

In this analysis, our goal has been to develop an in-depth understanding of the nature of the internationalisation of multipurpose cooperatives. We develop a comprehensive framework to illustrate particular aspects of market-driven strategies of multi-purpose cooperatives. With this study we want to identify the similarities and differences in the companies` activities in the process of internationalisation as well as the relationships between the cooperatives´ development and their position in the supply chains. We also want to identify the main policy measures and how they affect the current structure and the dynamic development and performance of the cooperatives. A final objective will be the identification of the relationship between the internal governance and the evolution of the organisational structure of the cooperatives towards hybrid cooperative models and the process of internationalisation.

In this case study, the following research questions have been guiding the research. First, what are the main activities on which the cooperative´s success is based on? Second, to what extend can the success of the cooperatives be attributed to the internal governance of the firm and what is the role of the producer groups? Third, what are the differences and similarities in the internal governance, the strategies and the culture of the cooperatives. Fourth, what were the main reasons for starting their internationalisation strategies? Fifth, what have been the impacts of the policy regulations on the internationalisation process of the multi-purpose companies?

The central issue to be addressed by this case study is whether structure (e.g., size, internal governance, position in the food chain, relationship between members and company, etc.) has had a significant impact on the strategy adopted by the multi-purpose companies and on the success or failure in their internationalisation processes.

Hypotheses

A number of hypotheses are used to draw more general conclusions on the case studies that are being carried out in this European project (for generation of hypotheses see in particular Bijman, Ollila, Pyykkönen (2011), Methodology and tools for Transnational Cooperatives) For this particular case study on multi-purpose companies Agrial and BayWa AG, the following hypotheses are used:

H [3] Managers of cooperative firms prefer to run foreign operations like an IOF

H [6] Larger cooperatives are less likely to invite foreign suppliers to become member than small cooperatives.

H [13] Foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective.

H [14] Cooperatives going international are not likely to invite their foreign farmer-suppliers to become members as domestic members fear a dilution of income rights.

H [15] Cooperatives going international will apply different business models in their foreign operations, which will lead to a different relationship with foreign farmers.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

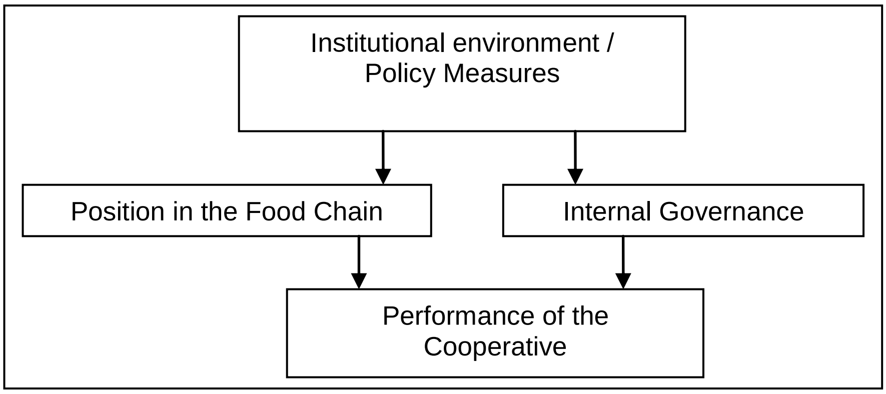


Figure 1. The core concepts of the study and their interrelatedness

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 co-operative stakeholders. For this particular study, board members and managers of both Agrial and BayWa have been interviewed, as well as other stakeholders. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

1.4 Internationalisation of multipurpose cooperatives

This case study is about the development of international growth strategies in large European businesses operating mainly in commodity products in volatile markets. This case begins with a profile of the product markets and the national and international situation. It sets out the performance objectives of the business and traces a number of strategic moves of the near past.

The farm input supply and grain trading industry is one of agribusiness sectors that relatively early realised that growth potential is exhausted in economies of scale and that there is only growth potential in developing economies of scope (diversification) or in the extension of geographical boundaries. Both firms subject of this case study are characterised by an international orientation and by former heavy investments in the acquisition of regional competitors. Substantial growth is often subject to anti-trust acts from the standpoint of the national or European market. These issues forced the companies to a reorientation of their business activities towards the development of international market access.

1.5 Structure of the report

Chapters 2 and 3 of this report are aimed to provide a full picture of the market developments as well a description of the two cooperatives under study. The sectors and cooperatives will then be compared to each other in chapter 4. In addition, this chapter also describes the internationalisation strategies the two cooperatives have established. Finally, in chapter 5 conclusions are drawn on the effect of the structure, strategy, and policy measures on the development of the internationalisation process.

2. The first case: Agrial (FR)

Agrial is a multipurpose cooperative group with 10,000 members and 7,300 employees. Its activities concern Cereals, Beef, Pork, Poultry, Dairy, Fruit & Vegetables, Wine, and Farm machinery. Agrial is the European leader in ready-to-eat vegetables. AGRIAL separates its cooperative and subsidiary-based activities. In 2000 AGRIAL was set up, thanks to a merger between AGRALCO, ORCAL and COOP CAN, and it has since become a major multipurpose cooperative in France.

2.1. Facts and figures on the sectors and on cooperatives

As a multipurpose cooperative, Agrial is concerned with various sectors. Agrial combines multiple activities and is present in the Top 10 for IAA (6th in 2010, 8th in Agriculture in 2009). However, although it is quite a big cooperative in France, it is not a leader in any of the sectors it is involved in; it does not, for example, appear in the Top Five of cereals, dairy, wine, fruit and vegetable and pig meat sectors (Turnover 2009, French Report).

In the **sector of fresh fruit and vegetables** (excluding potatoes), France is the third European producer, after Italy and Spain, with 2.8 million tons of fruit and 5.7 million tons of vegetables in 2010 (excluding potatoes). France is one of the European leaders for processed vegetables: Bonduelle is the European leader for canned vegetables, and Agrial is the European leader for ready-to-eat vegetables.

For 2011, the sector data for Fruit and Vegetable cooperatives show:

- Cooperative enterprise numbers: 300
- Farmer-members: 35,000
- Employees (ETP): 10,000
- Turnover (M€): 4,500

In 2009, for the Fruit and Vegetable sector, AGRIAL was in the Top French 3. AGRIAL combines multiple activities and is present in the Top 10 for IAA (6th in 2010, 8th in agriculture in 2009). However, although it is quite a big cooperative in France, it is not a leader in any of the sectors it is involved in. Each sector represents more than 10% of total turnover. Unlike other cooperatives, such as Terrena (which has been in the Top 3 for some years now), Agrial is N° 1 for ready-to-eat vegetables. AGRIAL's Vegetable branch is located in the United Kingdom, Spain, Portugal and Italy.

The leading companies in the fruit and vegetable sector in France in 2009 (by turnover)

Companies	Legal Form	Turnover 2009 (million euros)
Bonduelle	Investor-owned Firm	1,524
Cecab (D'Aucy)[1]	Cooperative	630*
Agrial (Florette + Primco)[2]	Cooperative	580*

[1] We have not included Cecab in the Top 5 of the fruit and vegetable sector because it is a multipurpose cooperative.
[2] We have not included Agrial in the Top 5 of the fruit and vegetable sector because it is a multipurpose cooperative.

Main acquisitions made by Cooperatives in the Fruit and Vegetable sector between 2000 and 2010 (French Report, 2011)

Year	Cooperatives	Company bought
2001	Agrial	Vega Mayor (Spain)
2006	Cecab	Globus (Hungary)
2009	Agrial	Salads to Go (GB)

AGRIAL made a major acquisition in the Wine sector when it bought CCLF (Les Cidreries du calvados - La fermière) in 2004 in order to become the leader in the cider market. When Agrial merged with Elle & Vire, Agrial sold two cider factories due to French Competition Authority.

Recent developments in the Fruit and Vegetable sector have taken place in the frozen branch, with two main partnerships being concluded between cooperatives and investor-owned firms. Certain cooperatives have decided to expand at international level (Agrial, Cecab) and/or to invest in processing (Agrial, Cecab, Triskalia).

The fruit and vegetable market in France is a mature market, so the companies will have to expand their activities at international level. Going international is also a way for those companies to respond to the needs of their customers, who want to have access to certain vegetables all year long.

For the **Cereals sector**, Agrial has progressed in market shares ever since the end of 70s. In 2010, the market share of cooperatives in the cereals sector was 74% for collecting, 40% for malting, 50% for the corn industry and 40% for the milling industry. There are 600 companies involved in the 1st stage of processing, and 35,000 companies involved in the 2nd stage of processing. The cumulated turnover of the cereals sector in France is around 54 billion Euros, with production representing 18%, collection and storage 30%, 1st processing 20% and 2nd processing 32%. The cereals sector is still fragmented, with the first 10 companies representing less than 30% of total collecting. Agrial is not present, either in tonnage or turnover, in the Top 10.

For the **Dairy sector**, France is the 2nd producer of milk in the EU, after Germany, with around 23 billion litres of milk collected for a general turnover of 25.6 billion Euros (including 8.7 billion Euros for cheese and 7.6 billion Euros for fresh products). About half of French production comes from the 3 western regions (Bretagne, Pays de la Loire and Basse-Normandie). After 2015, dairy cooperatives will have to decide which way they will handle and enhance the value of the additional volumes of milk that their farmer-members will produce. With the end of quotas, it will be necessary for each dairy cooperative to have an optimized management of total contribution[3]. Agrial now considers that that is an opportunity.

As a multipurpose cooperative, Agrial has developed its structure to allow it to adopt different competitive strategies for its members in each sector.

2.2 Strategy and structure of Agrial

Last year, Agrial reorganized its organisation. Strategy is oriented by economic performance targets for farmers. In order to reach that objective, Agrial proposes an original organisation based on proximity logic with members and territory. Agrial is a multipurpose cooperative in

[3] Dairy cooperatives are obliged to accept all the milk from their farmer-members.

both the animal and vegetable domain[4]. Accordingly, Agrial has developed a structure which combines product chain value and territory. We first present Agrial's strategy, and then its organisation and governance structure.

2.2.1. Strategy of Agrial

2.2.1.1. Presentation of Agrial

Concentration and diversification

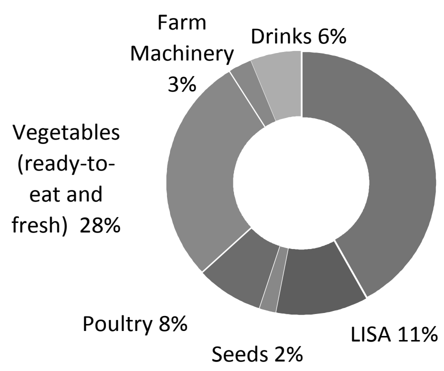
Investments in agribusiness certainly need massive funding (See Agrial Key figures given at the end). However, present-day economic conditions have reinforced the imperative need for an adequate supply, both in terms of quantity and quality, of raw materials. Mastering production costs is essential for members and cooperative alike. All those aspects are indispensable if we are to understand the logic of concentration and diversification behind Agrial's strategy. As competitivity involves critical size, Agrial modified its organisation in 2010, after its merger with Union Set, in order to reconcile critical size and a human-size cooperative. 57% of Agrial's 7,300 employees are localized in Normandie, Pays-de la Loire and Bretagne, and 23% outside France.

Competitive advantages

Its activities are mainly organized in three sectors:

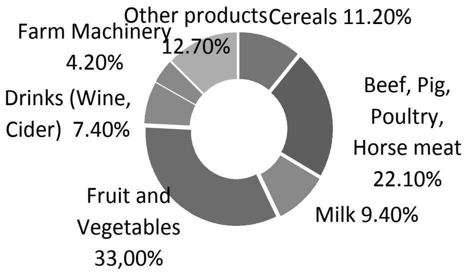
- Cooperative Agricultural activities (*47% group turnover*),
- Distribution subsidiaries *(10% group turnover*),
- Transformation Activities, such as Poultry, Cider, Vegetables, are developed in *Agrial Entreprise (43% group turnover)*

Breakdown of Agrial's consolidated turnover in 2010[5]

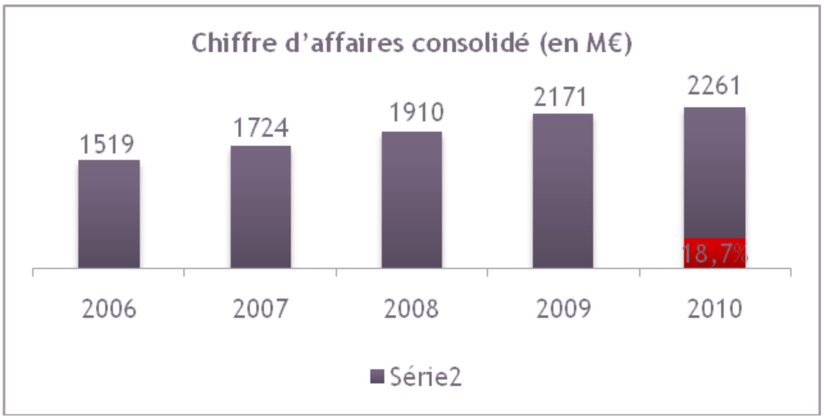


[4] "Today, Agrial has reached equilibrium, with 50% upstream and 50% downstream" »(interview of Mr Spiers, April 12th 2012).
[5] For Vegetables, the 28% is composed of 17% for Ready-to-eat, and 11% for Fresh Vegetables.

Turnover by product (% of Total Cooperative Turnover, 2009)[6]



Most of Agrial's turnover in Fruit and Vegetables comes from its subsidiaries (Prim'co, Florette, Créaline and CCLF). But its merger with Union Set Cooperative has given it an increasing part of upstream activity agrisupplies.



Source: Mauget and Frey, 2011: Consolidated Sales Turnover in 2011 in MEuros

Internationalisation of Agrial

Agrial's internationalisation started 12 years ago in the Vegetable sub-sector with Florette and Priméale. In 1999, Florette set up a production unit in England. Afterwards, Agrial bought processing plants in Spain (Vega Major in 2001 and Tallo Verde in 2008) and in England (Salads to Go in 2009). Agrial now has 11 successful production units in 5 countries (France, Spain, Italy, Swiss, England). In 2010, for ready-to-eat vegetables, its part of European turnover increased by 126 million to 233 million Euros. Primeal, Agrial's vegetable subsidiary, has 6 production basins/zones, including Spain and Portugal. 34% of Primeal's turnover for Fresh Vegetables comes from the UE, but outside France. That strategy can be explained by its relations with the distributors who want all-year-round products coming from a limited number of producers. Agrial's internationalisation is, therefore, essentially confined to the Vegetable chain.

[6] Agrial Annual Report 2009

Recently, the group lost its leadership of Socopa to the Bigard group in the beef and pork chain. Agrial now plans to develop its dairy production (minority shareholding in Bongrain's CLE and its industrial production with Senoble).

History and Origins

Agrial's history is essentially made up of mergers with cooperatives. Despite the various structural transformations Agrial has always kept the number of its farmers constant. Major mergers in the 80s include CASAM (10,000 members), AGRALCO (10,000 members), and Union SET in 2009. The latter merger was a significant event, because AGRIAL increased its regional implantation (Sarthe and Indre-et-Loire) with 2,000 new members.

The objective is to improve competitiveness by developing a sufficiently critical size. The succession of mergers was reinforced by the fact that farm numbers were decreasing, but the surviving ones were becoming bigger and more business oriented.

The cooperative, whose origins were based on farmers' unions, was created at the beginning of the 20th century to « buy fertilizers collectively » (interview of Mr Spiers, April 12th 2012). As for the objective of becoming a marketing cooperative for the animal and vegetable chain, that only came later, thanks to the diversity of regional products.

Since the 70s, the thirty-odd cooperatives have turned, additionally, to the downstream level in order to capture added-value. Today, Agrial now has 50% of its activities in the upstream and 50% in the downstream (interview of Mr Spiers, April 12th 2012).

2.2.1.2. The new organisation of Agrial

Main characteristics: the Agrial group has an innovative, radically different, organisation between its members/structure founded on decentralized organisation, and new arrangements between members/subsidiaries based on value chain products.

- *Choosing to structure a decentralized organisation: reinforcing the human dimension*

Agrial has developed a specific upstream organisation model: a production-oriented cooperative based on proximity with its members.

Although members fully adhered to the increased critical size resulting from the different mergers, they wanted to retain the human dimension of their cooperative. That is why Agrial organized its territorial circumscription[7] by setting up 14 regions (14 mini-cooperatives), each of which is an autonomous decision centre. Each mini-cooperative is restricted to 500-600 members and benefits from geographical proximity.

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[7] Territorial circumscription, which is a typically French specificity (Chomel, 2006) is a key element in the legal framework (See article L.522-2 of the French Rural Code) of the agricultural cooperative. It is defined in Article 2 of standard French statutes for agricultural cooperatives as a geographical area that is indivisible and continuous, authorizing the cooperative to undertake its corporate mission irrespective of the branches or sub-branches of activity involved. Territorial circumscription combines the authorization for producers to join a particular cooperative with their exercise of a productive activity in conformity with their particular economic activity (winegrowing, dairy, etc.). The area in question, whether comprised of townships, counties or provinces, in no way restricts cooperatives' access to different markets. Depending on their social goals, cooperatives are free to buy or sell goods in markets outside their territorial circumscription.

For the production organisation, all the Head offices of the different *filières* are localized within the Producer Organisation (POs) located in production areas (Bessin-Bocage, Plaine-en-Falaise, Pays d'Auge, Orne-centre et Est, Sarthe-Nord, Sarthe-Sud-Est, Indre et Loire, Sarthe-Sud-Ouest, Mayenne, Ille-et-Vilaine, Mont-Saint Michel, Bocage-Ornais, Centre-manche et Cotentin). The *filière* organisation is the same as for Territorial Organisation: a Board, elected by producers, with a team in charge of administration aspects (Agrial, 2010).

The objective is to satisfy members' needs and to counter competition from other operators. That competition is amplified by the sheer diversity of regional productions and the extensive territory covered by Agrial. Agrial has chosen not to practice one uniform average price for services and supplies for its members. Each mini-region defines its own price policy and, in return, has to obtain results of 1.5%. Each mini-region also manages its human resources. Each mini-region director has a delegated power of decision, and manages 95% of all decisions concerning members' activities (agricultural advisory, distribution, price remuneration, local investment). The main missions of each regional Board are to sustain investment projects.

Its Chairman is an elected member, who is also a Board member of Agrial. As for the mini-regional director, he is answerable to the Agrial CEO, who determines supply and sale prices for the whole group.

Agrial's headquarters in Caen has, in all, only 20 employees in its group management services (institutional relations, finance, and communication).

Golden Rule: Each mini-region is a profit centre, which has to obtain results of 1. 5%.

Golden Rule: The Agrial CEO is authorized to manage 9,000 group employees.

Golden Rule: Distinguish between policy-making and management of the POs. If the Board Director is authorized to manage 9,000 group employees, every Activity Director is directly associated with a President or a member of the Board.

- *Group organisation: from members to subsidiaries*

In 2011, the new organisation brought together 16 strategic activities and 8 sectors: 4 upstream and 4 downstream. The 16 strategic activities which characterize the group are independent of each other, and each of them can form alliances according to their development needs. Those activities must attain minimum profitability, fixed at 1.5 % of the Net Result, which implies having the appropriate financial and economic tools. The Board sustains the investment choices according to their impact on farmer-members. If those investments give rise to numerous production rights, then return on investment is spread out over 10 years. If the production rights are only average, the return on investment is set for 6 years and, when the level is almost non-existent or nil, return on investment is set for 4 years[8].

Supply Sector: Field of activities

That supply sector includes all supply activities, ranging from animal feed to pre-processing (eggs, cattle, pigs, and services). As there is no link with processing phases, the group does not give any recommendations to its producers concerning what they should do (production and/or purchases).

[8] That is the case for Breitz Cola. Agrial signed a business contract without any production rights. The interest of that operation resides in optimizing the cider plant, and in the ensuing joint commercial synergy. Agrial acquired a 34% interest in Breitz Cola.

Seeds Sector: fodder crops, maize, cereals (very profitable). Agrial is a multiplier, but not a plant breeder.

Rural Distribution Sector: The only sector with 1,000 members, and which is open to non-members. Agrial has one store for every 15 km, *i.e.* 230 stores and 1,000 employees. This activity is particular profitable. The stores have developed a DIY section, but have deliberately excluded foodstuffs, to avoid any competition with the large retail sector.

Machinery Sector: No cooperatives are competitive as regards this activity. But, as this *sector* has a result of 1.5%, the activity is maintained.

Agrifood processing

Dairy sector: Agrial has a partnership with Bongrain (a major French IOF). Members can either go through Agrial or sell directly to other operators (Danone, Sodiaal). Historically, Agrial positioned itself on vegetable sector, although 80% of its members are milk-producers. In 2011, the Board decided to invest in the dairy activity, since Bongrain chose not to participate. Taking advantage of Agrial's image in ultra-fresh products (ready-to-eat, poultry), Agrial initially took a 50% share in Senoble, and then became the majority shareholder. It then invested in SELYSLAIT.

Poultry Sector: Agrial's strategy is to increase the number of its outlets over and beyond the production capacities of its members. For that sector, and its 150 poultry producers, the goal is to be regional leader (not national) due to the presence of the other leaders, LCD and Gastronome. Agrial is positioned on the wholesale segment where it is the Number 1 dealer in poultry at Rungis, which allows Agrial to really know its client market. Agrial has a strong position, since it has few dealings with the large retail sector. That strategy allows Agrial to improve remuneration of its members. The contractualisation set out in the Agricultural Orientation Law in 2010 does not really work with the farmers, since they behave opportunistically. That is also the case in what concerns cereals. The only counter example is the contract with Mac Donald, where the farmers have committed themselves for 3-year periods at an average price, in order to stabilize supply.

Drinks sector: Agrial has now become the French leader in cider, even though it only started in 1995. That is because cider apples are particularly emblematic of the Region. Agrial has started a concentration progress in order to manage its profitability, which has allowed it to develop other products (examples Danao, distribution of Breitz Cola). Agrial's current strategy is to become installed on the international scene, and to enhance the value of its co-products. Agrial has just bought an organic apple plant in California. That family business, which processes farmers' produce, chose excellent results because it uses Mexican labour. That allows Agrial to export cider, in addition to the existing range of products distributed by this business (vinegar, apple juice). That first experience outside the EU is designed to increase the complementarity of products, thanks to the existing distribution network. There is no contract between producers in the processing plant. Agrial will not change the existing system, and will buy at market price.

Agrial also owns or rents other production companies (Landes, Switzerland), but without duplicating the cooperative model.

Vegetable sector since 1987: The merger of several vegetable-crop cooperatives has allowed Agrial to become European ready-to-eat with 40 producers, and also a leader in fresh vegetables, with 100 producers. Agrial attained critical size, thanks to its successive developments internationally, first in Spain, then in England, Switzerland, and Italy. Agrial's strategy has consisted in various takeovers combined with mastering sachet packaging on its

12 production sites. All those investments were made possible thanks to the good financial results of the sector. That geographical distribution also has the advantage of reducing market risks, since large retail pressure is not as great as it is in France. The Director of Florette, what is more, is English. For fresh vegetables, the production basin, is situated in Normandy. However, due to the large retail sector's need to have a year-long listing, Agrial has increased the number of its complementary basins, using the trade mark PRIMEAL.

In what concerns implementation of their "Salad Program", its growers have increased their production. Nevertheless, even if they have increased the size of their farms, and even if Agrial has backed the development of the activity financially, there has being no supplementary commitment by the producers. That can be attributed to the differences between professional specialisations.

In short, producers are the very bedrock of the group. If ever they were a disconnection between the upstream and the downstream, the group would have to try to manage such strategic incoherence. In other words, the closer the group is to its members' production, the easier it is for the group to improve its economic performances. Agrial intermeshes territorial and sector organisations.

2.2.2. Governance of Agrial

The group's governance is dominated by the quest to keep in close proximity with its members, combined with highly-effective economic performance. The social capital of AGRIAL is exclusively reserved to its farmer-members. The new organisation of Agrial is based on an efficient style of management and in decision-making within the group.

- *Management*

It should be recalled that "All the decisions are taken by the group Board. All the operational management is delegated to the Managing Director" (Spiers). Agrial considers that cooperative unions are not very effective due to the dilution of power (the failure of ULN [9]still lingers on in the minds of members and managers).

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[9] Union Laitière Normande was set up in 1962. With the introduction of the CAP in 1963, a certain number of difficulties started to emerge, so the manager of ULN, Augustin Grandin, decided to expand at international level. At first, ULN was specialised in butter and milk powder, two productions that did not need big investments and that were subsidized by the European Union. But, after 1971, with the emergence of the European agricultural surplus, ULN had to convert its industrial facilities and became more diversified (in animal feeding). By the end of the 70s, ULN was the leading agricultural cooperative in France in terms of turnover, and also the leading French exporter of agribusiness products. But, in 1984, the introduction of milk quotas forced ULN to rethink its strategy. The company decided to invest in value added products like desserts, emmental or yogurts.

Later, ULN engaged an internationalisation strategy, both industrial and commercial, by acquiring assets in USA, Spain, Russia or Belgium. But, at that time, ULN did not have the necessary financial resources and had to contract loans. The problem was that the rate of interest was really high and made all those investments very costly. The weakness of the financial set-ups for this acquisition, combined with the operating losses and its debt burden, led ULN to the verge of bankruptcy.

In 1992, with a turnover of around 2 billion euros, and famous brands in France like Mamie Nova or Elle et Vire, ULN, a union of 15 cooperatives failed because of multiple investments abroad. Various factors can be used to explain this failure: essentially, the lack of any real collective project, combined with the undue weight of banks in the social capital, did not allow cooperative governance (see Koulytchizky, 2001). The milk collecting activities of ULN were bought by Bongrain and the Compagnie Laitière Européenne was established on what was left of the former ULN. Nowadays, the cooperatives which were members of ULN have a minority shareholding in the Compagnie Laitière Européenne (See French Report, 2011).

The Administrative Board, Regional Boards and the different *Filière* Boards together represent some 400 elected persons. Within the cooperative there are also specific commissions in charge of various subjects to help the Board of Administration.

In 2010, the organisation of the group evolved with 16 types of activities (such as Poultry, Seeds, Milk) and 8 sectors.

- The Upstream sector: all activities, including advisory services in direct contact with members (agrisupplies, animal feed, various services/departments), and POs (Dairy, Cereals).
- Seed sector: all aspects of the Seed sector (Colza).

Vegetable sector: developed on two EU markets: fresh and ready-to-eat. More recently, this sector has incorporated new products, such as soups and purées, under the CREALINE brand. That reorganisation of the group by sector is due to its increasing size. That choice should ensure a clearly-defined organisational structure for farmers.

Since 1st January 2010, Ludivic Spiers has been the CEO of the Agrial (cooperative and group) and, as such, is in charge of 4,000 employees. Other changes in the managment staff are currently under way.

The cooperative has a holding "Agrial e entreprise", which has several sectors and subsidiaries. That principal holding englobes all the sectors, each of which has its own specific sector holding, whose managing director is answerable to the CEO of Agrial. That organisation allows outside investors to have a share in the subsidiaries. Currently, 600 growers, those who are involved in transformation activies, have social capital in the holding. Employees do not have any social capital in the holding, but "profit-sharing" is practised, although it varies according to countries and products.

- *Governing Boards*

The Board is made up of all 14 regional chairmen, and of two sector delegates. As for the Executive Board, it is made of 15 members. General Assembly gives its discharges for POs decisions. It is, however, the Board, which proposes how the results will be affected between members and the cooperative. The Chairman of the Board-CEO tandem, which is essential to the good governance of the group, functions thanks to daily contacts.

Territorial Section Assemblies (equivalent to the mini-cooperatives) complement the organisational governance structure. The Chairman of the Board and the CEO attend the two annual meetings of each section in order to have direct contact with the members.

- *Supervisory Boards*

The supervisory board is composed of elected directors, with 50% of them being in the same sector, and 50% elected officials who belong to a different sector.

The Chairman of the Board is the Chairman of all the sectors. Strategic decisions are worked out in each sector, but because of the diversity of elected officials, the way in which the information is shared reduces tensions. Sector Meetings are held 4-6 times a year. The sector Manager and the sector Chairman are both members of the Board. Ever since 2010, Agrial has set up a Remuneration Council for the Managers' salaries and an Audit Council composed of 7/8 administrators designated by the Chairman of the Board. That council works with internal and external auditors on various assignments (e.g. Reflecting on the price of milk); that is done in the absence of the Chairman of the Board and his Vice-Chairmen.

Out of 40 administrators, 25 are very much involved in various projects. Thanks to Agrial's financial compensation, each elected member can be replaced on his farm. Every administrator assumes a functional assignment while exercising his basic professional activity. The administrator benefits from regularly organized trading sessions (Senèque). The renewal of administrators is a constant preoccupation. It is the Chairman of the Board who puts forward the name of junior administrators.

- *Funding*

Agrial e enterprise is a holding open to IOFs or other investors. Owner-members of the cooperative can also directly buy social capital. In 2012, 600 members of processing activities had their own shares. Agrial offers financial involvement to its employees.

- *Remuneration of members*

The remuneration of members' supply deliveries varies with each type of production. For pigs, the price is fixed by auction market. This price is the same for all POs. For cereals, the price is determined by the farmers who can choose to sell whenever it suits them. Agrial has provided 15 decision-support tools to empower its farmers. For ready-to-eat vegetables, production has been contractualized and the contract negociated with sector manager. For apples, the contract is guaranteed for 15 years. For poultry, the price is fixed by profit and lost transfer agreement. For cattle, there is no contract. For milk, the price is that fixed by the PO.

Administrators place their trust in the group's results. There is no employee turnover. The proximity of the Rural Distribution stores allows close links between members and cooperative to be maintained. As there is a 1.5 result objective, the delegation of responsibility and good group management are guaranteed.

The message is « Sell in order to produce ». Thus it is, that going to market to find new contracts and new outlets constitute a major challenge. Remuneration of the product is consequently established according to either the market or PO. Members are encouraged to invest in processing, in order to capture added-value.

2.3 Relevant support measures affecting structure and strategy

2.3.1 Policy measures and perspectives

Support measures are part and parcel of the development of multi-purpose cooperatives. How effective and efficient have the various policy measures instituted for farmers proven to be in promoting cooperatives? In what way have multipurpose cooperatives developed a specific business model?

Policy measures impact the development of cooperative groups and, consequently, their strategies and governance (Agreste, 2009b, Filippi *et al.*, 2006). Those impacts have affected the subsidiarisation of cooperatives and the distinction between upstream/downstream. So we need to recall the general policy measures that have been put in place. Afterwards, we present their impacts on the multipurpose business model. For Agrial, the different laws definitely impacted its subsidiarisation and its multipurpose organisation.

2.3.1.1 Policy measures

Specific and general policies are presented in the Policy Measures Description Table given at the end. For France, different measures exert an impact on agricultural cooperatives and, in particular, on multipurpose ones. The most important measures are to be found in:

The **Law of August 8th 1962**: agricultural cooperatives are only recognized as "producer organisations" (POs), in the same terms as specialized professional unions and associations under the 1901 Law.

The Law of June 27th 1972: concerning agricultural cooperatives and their unions allows clauses that derogate from cooperative principles: i.e. the possibility for cooperatives to conduct business operations with non-members, vote weighting, the reevaluation of their registered capital, the possibility for non-users (investors) to become members, and lastly, letting a management Board and a supervisory Board ensure the management of cooperatives. The Law stated that agricultural cooperatives would keep their tax and financial advantages while given the opportunity, thanks to options, to benefit from a relaxation of the constraints (Nicolas, 1995). The law gave autonomous status with options to the cooperatives, and had a positive impact on the development of cooperative groups (thanks, especially, to the exclusiveness exemption, and the possibility to work with non-members).

For Pedrotti (1983), the development of agricultural cooperatives in the 70s was due to the evolution of the legislation in France and in Europe: the required conditions for the "recognized producer organisations" had reached a point where those farmers who wanted to benefit from of market support aids often had only one solution, that of becoming the member of a cooperative. What is needed is to maintain a sufficient number of farms to ensure territorial development (Coulomb *et al.*, 1990). As this has kept many non-competitive farms afloat, the cooperatives have had to come to their rescue at the expense of their own competitivity.

The **Laws of 3rd January 1991 and of 13th July 1992:** constitute the key for understanding cooperative development in France. Those laws are aimed at reinforcing equity capital via new financial tools and subsidiaries. The **1991 Law** institutes a new form of distribution for the annual surplus coming from cooperative and subsidiary activities. Both laws allow outsider investors (non-user members) to buy shares in the registered capital. They also allow cooperatives to withdraw from the cooperative legal status if their supervision authorities grant them permission to do so. The financial tools proposed by the 1991 Law were not very successful. But the opening introduced by those laws paved the way, in fact, for the greater development of subsidiaries. The redistribution of dividends introduced a logic of capital different from that of the product (de Charrin, 1992 ; Koulytchizky andt Mauget, 2003).

At international level, the Common Organisation of agricultural Markets, and specific provisions for certain agricultural products, consequently impact cooperatives. Other sectoral laws at National or European levels have a strong impact on cooperative.

A good example of this is to be found in the way in which the CMO has acted in the Fruit and Vegetable sector[10]. It set up co-financed operational projects, with the amount of aid being calculated in terms of the added value for farmers. This encouraged farmers to improve their production and incited POs to better organize themselves in order to develop real adequation between production and market processes; this was done, in part, by introducing

[10] These comments are based on a phone Interview with Jean-Luc Vandenmoortele, Responsable Développement de l'OP Légumes d'Agrial, 31 August 2012.

certifications (for example ISO) and new environmental practices so as to satisfy consumers' expectations.

From the very beginning, Agrial organized itself by structuring its activities around POs. Agrial was to play a major role in what concerns the reform of 2002. That reform, which introduced the need for the production of subsidiaries to be included in the calculation of subsidies, was due to both the specific character of the fresh vegetable sector and to the domination by the retail actors. The CMO included in the calculation the production of subsidiaries owned at 90% of social capital, because those subsidiaries participated actively in promoting value enhancement for farmers and favorized the development of good practices and certification.

This intervention by the CMO proved particularly positive for farmers, collective organisations and chain food structuration. In a post-2013 perspective, it might well be useful to incorporate all the subsidiaries into the calculation, including those which though have only 51% of social capital, share the same cooperative spirit. This is because even if cooperative members are still owners, there is a need to obtain more and more financial funds in order to conserve competitive position (by certifications and negotiation power with retailers).

As the Fruit and Vegetable sector is very specific one, it seems important to conserve a specific Fruit and Vegetable CMO. Equally, a systemic approach to that sector would be useful to integrate all the production parameters, thereby establishing a highly focused system of aid designed to mobilize the whole range of production parameters (pesticides, irrigation...). Another useful development could be to adopt a pro-active approach to crises, by setting up such tools as "crop insurance", and specific "communication campaigns" to sustain farmers' activities, as well as those of POs and the food chain.

The Council Regulation[11] on **support for rural development** by the European Agricultural Fund for Rural Development (EAFRD) plays an important role. Cooperatives are the fundamental actors of territories. They organize production in order to support farmers and help young farmers to become installed. So the territorial roots of French cooperatives confer on them a decisive role in local economic development and in the environmental sustainability of rural areas.

2.3.1.2 Policy measures' impact on the multipurpose cooperative business model

Cooperatives may follow different strategies abroad than those that they follow in the home country. This may be explained by their history, their market position, their supply chain relations. More generally, we can say that cooperatives apply different business models at home than they do abroad. A different business model may lead to a different type of relation with the farmer-suppliers.

- *Why choose multipurpose activities within one cooperative?*

Multipurpose cooperatives correspond to the diversity of their members' productions (Agreste, 2009a). In order to manage relations with members directly, the different professional activities are handled separately within the cooperative. The upstream relations are those directly concerned by the cooperatives' direct prerogatives. When, however, those relations concern enhancing the value of members' production, going to market or processing operations, cooperatives resort to subsidiarisation (Filippi, *et al.*, 2006).The decision to have a multipurpose cooperative is based on the logic of being regional leader for members'

[11] Council Regulation on **support for rural development** by the European Agricultural Fund for Rural Development (EAFRD) (EC) No 74/2009 of 19 January 2009, amending Regulation (EC) No 1698/2005.

productions in order to minimize economic risks, "not putting all their eggs in the same basket".

Vertical organisation means dissociating results and autonomizing the sectors as profit centres, even if mutualisation between sectors or professional activities can apply in case of losses. Such mutualisation also concerns financing, bound up with the reinforcement of new activities. In Agrial, that principle is applied not only to different sectors, but also to the 14 mini-cooperatives, defined on a territorial basis.

- *Associating local and global organisation in order to be more competitive*

Associating local and global organisation in order to be more competitive is bound up with enhancing the value of members' productions. The choice of each niche market (such as Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI)) is determined by the particular form of governance and type of decision-making within the group.

As multipurpose cooperatives often give rise to conflicts between animal and vegetable producers, especially in what concerns the necessary choices of investments, Agrial has chosen to handle such conflicts by decentralizing its decision making-process. This means developing transversal actions, as well as actions in common, both of which indispensable for the cooperatives' coherence. Equally, Agrial has chosen to implement Sustainable Development to improve the management of both its employees and its members (Rapport Développment Durable, 2011). Thus it is that territory becomes an ever-greater vector of cohesion.

- *Reducing interest conflicts between members, the role of territory*

Since the beginning of the 1990s, agricultural cooperatives have experienced great changes due to the financiarisation of their organisational strategies (Cook, 1995; Royer, 1999). Agricultural cooperative activities tend to develop within cooperative groups. In France, in particular, the weight of these groups within the whole cooperative perimeter steadily increased during the 1995-2005 period. This resulted from investments in subsidiaries which, for the most part, are not themselves cooperatives.

Analysis at the level of French districts in 1995 and 2005 shows strong evidence of global and local spatial autocorrelations in the geographical distribution of agricultural cooperatives. The presence of spatial disparities between French districts is confirmed by the detection of such specific spatial patterns as district clusters, a group of neighbouring districts with the same high or low level of agricultural cooperative activities. A typology of all the different Regions is developed to examine the specific spatial patterns of the agricultural cooperative activities (Filippi *et al.*, 2010). The results indicate that major organisational changes in cooperatives do not significantly modify the initial dynamics concerning the location of activities.

Nonetheless, even if this subsidiarisation process removes cooperative activity from its initial territorial perimeter, the general tendency is for the subsidiary to remain close to the cooperative head office (Filippi *et al.*, 2011). Hence, subsidiarisation mostly reinforces cooperative groups instead of leading to the spatial dispersion of agricultural cooperative activities.

The extension of the territorial perimeter of agricultural cooperatives can be seen through the grouping of cooperatives via cooperative unions or mergers. That grouping, commonly found in the agricultural cooperative sector, is based on legal status (partnerships) and economic features (critical size, cost minimisation) (Cook and Chaddad, 2004). Geographical proximity stimulates such grouping, because the extension of the territorial perimeter, and the sharing of financial or human resources, are at stake. By gradually expanding their territorial perimeter, some agricultural cooperatives have now become strong economic entities operating throughout the whole country. Nevertheless, that extension does not mean that cooperatives withdraw from their original territory and that their spatial organisation becomes weaker.

Equally, value chain characteristics differ in function of the product, which commonly influences the particular mode of spatial organisation. The obligation for agricultural cooperatives to collect the products of all their members located within the territorial perimeter is often invoked by them as imposing a heavy constraint on their economic performance. Dairy cooperatives, for example, are compelled to collect the milk from their producers whatever the collection costs. Although producer numbers are declining, cooperatives must ensure their social objective, even if that means losing money. So, even if the State offers fiscal exoneration from corporate taxes as a financial counterpart, that does not always compensate for the additional costs associated with those territorial restrictions. Furthermore, the modalities of spatial organisation for cooperatives are linked to the specificities of their products in terms of manufacturing and trade.

Recent studies highlight the distinction to be made between crop and livestock production (Frey, 2009). Crop activities cover widespread areas, but grain silos must be located within the vicinity of farms to avoid high transportation costs for farmers. As for fruit and vegetable chains, those can be located in peri-urban areas. In what concerns livestock products, the specific form of spatial organisation depends on the final product (and on milk, butter, cheese, live animals, meat), and how those products are to be processed and marketed. Product-origin links can also influence the spatial organisation of activities, as shown by the geographical indications used to protect and enhance the value of products corresponding to a specific geographical area. That is particularly the case in the wine and cheese sectors. Hence, production specificity can lead to different territorial mesh and location patterns for agricultural cooperatives.

That is why the concentration of cooperatives' activity is part of a vertical integration logic based on the division of labour and the use of specialized production tools. Industrial concentration processes in the agri-food sector are product-specific, but that is not new: concentration in the dairy industry, for instance, is stronger than in vineyards (Ben Arfa et al, 2010).

Consequently, spatial concentration processes directly concern agricultural cooperatives involved in the value chain stage of industrial transformation. That can be noticed in the vineyard, dairy or meat sectors, with the concentration of industrial tools increasing cooperatives' economic performance. Those industrial tools do not necessarily belong directly to cooperatives but to their commercial subsidiaries (Filippi *et al*., 2011). That is why cooperatives need to expand their product supply base over and beyond that of their members in order to have high-performance tools at their disposal. Hence, such concentration processes, particularly within the agri-food industrial sector, can weaken the spatial distribution of agricultural cooperative activities.

Nevertheless, even if huge cooperative groups do tend to emerge, the development of interdependencies between cooperatives reinforces synergies with local actors, and allows light to be shed on the positive externalities that benefit areas with strong cooperative capacity. As shown by Porter (2000), cluster analysis indicates that co-localized firms take advantage of agglomeration externalities (infrastructures, local labour market). But such agglomeration externalities, even those concerning knowledge exchange and collaboration developments between cooperatives, cannot easily emerge in rural areas. Consequently, areas that have a strong cooperative potential can be expected to show better resistance or to be more dynamic over time than is the case for areas with weak cooperative potential.

- *Perspectives*

In 2006, AGRIAL developed its strategic thinking both as regards the future evolution of its enterprise structure and its cooperative pact with farmers (Horizon, 2010), employees and managers. The decline in the number of farmers, specialisation in cereals and animal rearing, and ever-increasing professionalization oblige cooperatives to anticipate those developments in order to adapt their enterprise to the new needs of farmer-members[12]. They identify the need to develop more competitiveness by improving product value chains (*filières)*, and gaining more remuneration for farmers. So cooperatives develop mergers and acquisitions in Fruit & Vegetables and Poultry products on the EU market, and a new Strategic Project, Horizon 2015, is now engaged.

The fact that Agrial has introduced a result target for each of its 14 mini-cooperatives, whilst maintaining the notion of service to be rendered to each member, is particularly interesting.

« What differentiates Agrial as a cooperative group from an IOF is bound up with the particular stability of capitalistic property which allows its industrial strategy to be put into practice and permits the perpetuation of the group. Members' engagement in the choice of investment acts as a force guaranteeing the interest of the investment. The cooperative status does not hinder economic development. Nevertheless, that status should be renovated so that it is more in accordance with the functioning of the present-day economy. The external growth strategy of Agrial is based on mergers or takeovers designed to maintain leadership." (Spiers, 2012).

The reform of Council Regulation (EC) No 72/2009 of 19 January 2009 concerning **modifications to the Common Agricultural Policy,** has had major impacts on farmers and, consequently, on their cooperatives. For farmers, it acts on the system by requiring the authorisation of quotas and consequently, production levels. For cooperatives and producer organisations, it has strengthened their role in the organisation of production and distribution by forcing them to unite to carry more weight (lean production). The reform covers all sectors, and the entire French territory. Cooperatives have also paid special attention to good practice (farm advisory services), and participated in the development of innovative agricultural systems. The cooperatives have set up a Charter of agricultural Advisory Services from the perspective of sustainable development (2002, and certification of farm advisory system) and traceability standards (Agriconfiance). Over the past 10 years, they have developed management systems to improve their methods of governance.

[12] Supply Commission 28 November 2006

3. The second case: BayWa (DE)

BayWa AG (**Ba**yerische **Wa**renvermittlung **A**ktien**g**esellschaft) is a wholesale and retail company mainly operating in the segments of agriculture, building materials, and energy with its headquarter in Munich. The group´s turnover in 2011 reached approximately 9.6 billion €. It is a multipurpose company group with cooperative roots and currently cooperative members, a large number of shareholders, and 16,500 employees (2011). The company has evolved into one of Europe´s leading trading and logistics groups with around 3,000 sales locations spread across sixteen countries in Europe (Germany, Austria, and Eastern Europe). In addition, BayWa has gained a foothold in UK, USA and New Zeeland. Traditionally, the BayWa group has been generating the largest part of its revenues from the agricultural and food industry (45%), the Building Materials segment contributes 24%, and the Energy segment makes up around 30% of the revenues in 2011.

BayWa operates businesses in its three segments both directly as well as through its subsidiaries which are included in the group of consolidated companies. Including BayWa AG, the BayWa Group comprises 122 fully consolidated companies.

The following case study was conducted to illustrate the development of the company and to analyse its internationalisation strategy.

3.1. Facts and figures on the sectors and on cooperatives

As a multipurpose company, BayWa is operating in various sectors and sub-markets. In the Building Materials markets, BayWa is Germany`s no. 2 and ranks among the leading suppliers in Austria. The group operates DIY and garden centres mainly in rural areas and is also an important franchisor in these segments. In its Energy segments, BayWa mainly sells heating oil, diesel, petrol (operating own gas stations), lubricants, and wood pellets particular in its traditional regions of Bavaria, Baden-Wuerttemberg, Saxony, and Austria. In 2009, BayWa founded a new business in the field of renewable energies in which it intended to concentrate its core competencies. In its agricultural segments, BayWa is one of Europe´s largest full-line farm input supplier and plant-based products´ trader. It is the third largest farmers' cooperative in the food chain of cereals (see Kühl, 2011, p. 20) and within the German agricultural market, BayWa is the second largest company (cooperative) with a turnover of around 4.8 billion €:

Germany	1.	Agravis Raiffeisen AG	5,435
Germany	2.	BayWa AG	4,781
Germany	3.	Handelsgenossenschaft Nord AG	1,428
Germany	4.	Raiffeisen Waren-Zentrale Rhein-Main eG	1,391
Germany	5.	ZG Raiffeisen eG	914

Source: Kühl, 2011, p. 18 and own calculations.

The agricultural business is BayWa's largest segment. In its three business units of Agricultural Trade, Fruit and Agricultural Equipment, BayWa offers an extensive product range. The product spectrum in these units is supplemented by comprehensive advice and service offerings covering technical questions about farming and giving technical advice as well as aspects of business administration. The business units cover the whole value chain across the years' cultivation cycle, from sewing seeds through the harvest. The trade division provides farmers with the full range of operating resources such as seed, fertilizer, and crop protection, feedstuff for animal husbandry and everything for yard and barn and, by collecting and storing the harvest, it acts as a buffer between the seasonal production of agricultural produce and its ongoing consumption throughout the whole year. The storage and sale of the harvest are some of the most important services in the agribusiness. BayWa also offers the upfront financing of operating resources. These services and activities are primarily offered in the regions of Bavaria, Baden-Wuerttemberg, Saxony, Saxony-Anhalt, Thuringia and in the southern part of Brandenburg. In these regions, a total of around 470 locations and country terminals are run by Baywa. BayWa also maintains agribusiness operations throughout Austria through its subsidiaries RWA (Raiffeisen Ware Austria). Beginning with 1990's, BayWa has begun to start its Eastern European business with establishing local subsidiaries in the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Croatia, and Serbia. Whereas in Austria and Germany the whole range of agricultural products and services is offered in all locations, the focus of business in Central and Eastern Europe is on grain and seed trading. BayWa is serving various agricultural product and regional markets. That makes it very difficult to provide any quantitative data on the economic importance and market share of BayWa in these markets. In the cereals' sector, the cooperatives' market share was estimated around 50% in 2010 (Country Report Germany, 2011). According to a past investigation of the German antitrust agency (Bundeskartellamt, 2002) on the case of a merger between BayWa and WLZ (Wuerttembergische Landwirtschaftliche Zentralgenossenschaft) market dominance of BayWa is quite strong. Measuring is complicated due to the fact that BayWa's business in the agricultural segment is different in various regional or local markets. At that time, BayWa's market shares were as follows:

- Agricultural machinery service: around 30 %
- Pesticides: 15 – 25 %
- Seeds: 30 %
- Feedstuffs: 15 – 25 %
- Oilseeds: 35 – 45 %
- Cereals: 45 – 55 %

Most important to notice is that the main competitors are by far very small with market shares of not more than 7 %. As a secondary cooperative with business activities in the direct trade with farmers themselves (retail business) BayWa is also acting as a wholesaler for the primary cooperatives still existing in the market.

3.2 Structure and strategy of BayWa

Starting in the agricultural business, it was all the time the aim of the company to steadily reinforce its market position in their core segments of Agriculture, Building Materials and Energy. It developed its traditional strengths and competences in its regional home markets and then transferred this development and expansion of its activities to international markets. However, although BayWa had grown rapidly in recent years, mainly through acquisitions and merger activities, the firm could maintain its leadership in the three sectors and was able to expand its international activities. Both German and international companies and cooperatives mainly in Southern and Eastern Europe were eyeing BayWa's participation in the global market for agricultural and farm input products and the growth potential of the domestic and international market. Still the Group's core markets are in Germany and Austria. Currently, the international activities count for about 35 % of total revenues (Austria and other international operations). Three years ago, in 2009, this share was 32 %. There was a growth in highly fragmented sectors in various countries and the question arises if there is a clear trend towards consolidation driven by external and/or internal capital restrictions.

3.2.1 Structure of BayWa

History and Origins

BayWa AG was founded in 1923. The company has evolved from an agricultural trading company based in Bavaria to today's international trading and services company, with a workforce of more than 16,000. In 1923 Bayerische Zentral–Darlehenskasse (Bavarian Central Credit Bank), a traditional credit and farm input supplying and grain marketing cooperative, separated its agricultural business from its finance business in line. Shareholders of BayWa AG were at that time 1,462 primary cooperatives. For its first 30 years of its existence, it was a typical second-tier cooperative, owned and operated by primary cooperatives for their mutual benefit. But, BayWa AG was also operating a larger number of local warehouses as a retail company. In the 1950s and 1960s BayWa set up more than 300 repair and maintenance garages for agricultural machinery. In the 1970s the first building materials, DIY and garden stores were opened in the Bavarian region. In the 1980s saturated consumer and agricultural markets forced the BayWa management to think on re-organisation of the company. BayWa decided to streamline its organisation and to create flexible, customer-oriented operating units. The Building Materials Business Unit established itself as a professional distributor in the building sector, thus creating the preconditions for it to become a high-profile building materials supplier operating throughout Germany. BayWa made a contribution to improving regional building culture through its campaign entitled "Building to suit the Countryside" ("Landschaftsgerechtes Bauen"). At the same time, it committed itself to renewable primary products, giving its customers ecological alternatives to traditional methods and products. In the 1990s, in the line with the unification of Germany, BayWa expanded its business activities beyond its regional home market in Bavaria for the first time.

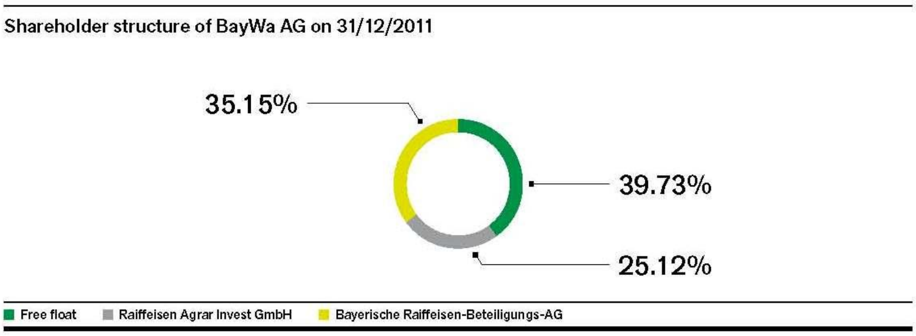
BayWa was and still is the main consolidator in the agricultural sector. Its vision was (and still is) to make BayWa to a global benchmark for a trading company by acquiring other cooperatives and IOFs and consolidating global leadership in the European and international agricultural farm markets. But to do so the cooperative needed to change the company's financing strategy, which in the early days of expansion was based on member contributions. In the year 1999, BayWa became Germany's first international operating multi-purpose cooperative by acquiring the farm input supply activities of Raiffeisen Ware Austria (RWA). It was the beginning of heavy domestic and international merger activities. Later, while many other multi-purpose cooperatives merged and extended their cross-border activities, in the year 2000 BayWa surprised the market again by announcing the acquisition of the large Stuttgart-based second-tier cooperative WLZ Raiffeisen AG (Ernährungsdienst, 2001). The merger was approved by the German anti-trust authorities. The transaction, besides giving the company more stamina to continue growing, put BayWa into the position to strengthen its market leading position in the German farm input and grain marketing business with additional activities in the fruit and vegetable trading segments.

Governance structure

Since its foundation as a secondary cooperative, BayWa AG has been a shareholder company, mainly owned by cooperative organisations. In former times basically primary cooperatives were the shareholders. In June 1960, the general assembly voted for a transition of the former voting shares into registered shares with restricted transferability. In the year 2000, the members decided to restructure BayWa AG as a "public cooperative" and issued about 35 % of its shares as limited voting common shares in the M-Dax, the German mid-cap stock exchange platform. The reason for going public was in part to raise capital for strategic initiatives that would broaden the firm beyond its initial function as a pure farm supply and grain distributor. Then, the BayWa AG share was admitted to the MDAX. This move stirred up a good deal of controversy among cooperative market observers, notably because BayWa had guaranteed control of the company via a special class of shares with super-voting rights (ten votes per share). The mechanism attracted heavy criticism and the share price plummeted. Despite this, the creation of BayWa AG put the company firmly on the national and international radar screen. Nevertheless, this enabled the group to implement a growth strategy aimed at transforming it into a global player in the sector. These funds made the company's financial position more comfortable. The transaction, besides providing cash, enabled it to alter the package of covenants in its bond indentures, which were now similar to those of firms classified as investment grade.

Currently (2012), the total number of shares (registered share with restricted transferability) is 33,100,769 of which 1,243,251 (3.8 %) are registered shares not restricted to transferability.The BayWa AG is traded on the regulated markets in the Frankfurt and Munich stock exchanges, in the XETRA trading system, as well as OTC on the stock exchanges of Berlin, Bremen, Düsseldorf, Hamburg and Stuttgart. The shareholder structure of BayWa AG pertaining to the registered shares subject to and not subject to restricted transferability at year-end 2011 was as follows: As per 31 December 2011, Bayerische Raiffeisen-Beteiligungs-AG (BRB), held 35.15 % of the shares in accordance with their entry in the share register. BRB is a Bavarian Raiffeisen-equity Corporation and manages its activities as a holding company for the Bavarian cooperative organisation to substantial holdings, mainly to companies in the cooperative association. At the end of 2010, the BRB was involved in 9 companies with shares

Shareholder structure of BayWa AG as per 31 December 2011



Source: BayWa (2011)

of a nominal value of approx. 312.6 million €and a book value of approx. 585.8 million €. In addition, the BRB holds in trust for the DZ BANK shares of a nominal value totaling approx. 77.5 million € to three regional grid companies. Raiffeisen Agrar Invest GmbH headquartered in Vienna held 25.12 % of the voting rights. The proportion of free float stood at 39.73 % on the reporting date. This company is a joint holding company of Leipnik-Lundenburger Invest Beteiligungs AG (LLI AG) and RWA Raiffeisen Ware Austria Handels- und Vermögensverwaltung reg. Gen.m.b.H. (RWA Gen), which was established in 2008.

Governing Boards

Baywa has installed the typical administrative structure of a Managing and a Supervisory Board. The Managing Board is composed of 5 representatives with responsibility for specific businesses: CEO K.-J. Lutz, responsible since July 2008, has been in charge of PR/Corporate Communication, Group Audit, Corporate, Marketing, Corporate Business Development, Group Risk Management, Building Materials Segment, Personnel and Senior Executives. K. Buchleitner has been the representative of RWA Raiffeisen Ware Austria AG, Vienna (since March 2003). A. Helber (since 15 November 2010) has been in charge of Finance, Investor Relations, Lending, Corporate Real Estate Management (CREM), Central Controlling, Information Systems, Law, Regional Administration Centres; Dr. J. Krapf has been leading the agricultural and fruit business (since 2002); R. Schuler has been in charge of Energy, Agricultural Equipment, BayWa r.e, (since 2002), and since the end of 2010, G. Ganghofer has been responsible the Building Materials Segment.

The Supervisory Board is made up to 16 members. In accordance with the German Codetermination Act (Mitbestimmungsgesetz – MitBestG) it is composed in equal parts of representatives of the shareholders and of the employees. Currently (May 2012) it is composed of 14 elected representatives of various group interests. It consists of workers council (4), workers union (2), bank (2), Raiffeisen Austria (1), farmers (2), cooperative and other business unions (2), and the chairman, M. Nüssel, president of Deutscher Raiffeisenverband e.V. BayWa's Supervisory Board has set up six committees of experts to enhance the efficiency of its works. These committees are as follows: Audit, Board of Management, Strategy, Credit and Investment, Nomination, and a Mediation Committee. The committees' practices are set out in the Articles of the Association and in the Supervisory Board's bylaw.

The Board of Management and Supervisory Board will put forward a proposal to the Annual General Meeting of Shareholders to pay dividends per dividend-bearing share. The intention of the company management and supervisory bodies in distributing dividend is to enable the shareholders to participate in the positive development of the BayWa Group. BayWa's interest isto continue and to uphold the steady, earnings-oriented dividend policy pursued in recent years. In relation to the BayWa Group's net income, adjusted for minority interest, the payout ratio – subject to approval by the Annual General Meeting of Shareholders – therefore comes to 40.1 % in 2011 compared with 33.8 % in 2010.

The company itself formulates: "*The German cooperative organisation and our cooperative-oriented shareholder structure are pillars of the company's sustainable positive development*." (BayWa, 2012b). Therefore, the statute provides a Cooperative Council, which has to maintain the cooperative issues by performing advisory activities. The Cooperative Council is allowed to present suggestions and recommendations to the Managing and Supervisory Board and the by majority vote. It consists of 26 representatives of cooperative banks (10; one of this group acts as the chairman of the council), farmers (8), farmerunions (3), cooperative unions (2), one politician (member of the European Parliament), a representative of the Austrian Chamber of Agriculture, and BayWa's chairman of the supervisory board. Still until today, twelve of its Board Members have been selected by farmer customers, with three elected by the common shareholders.

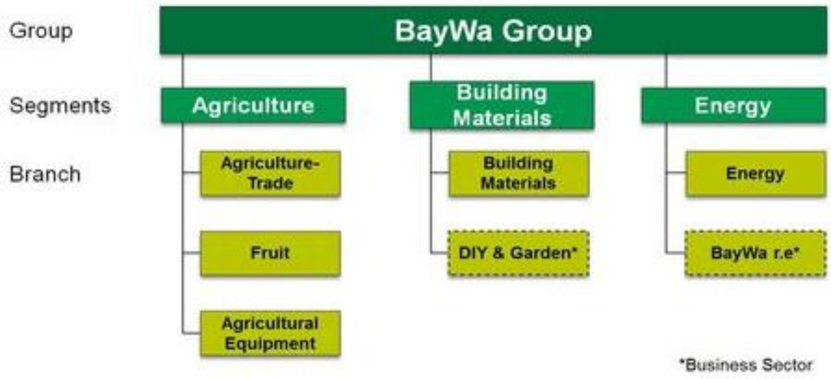
Shareholders

All shareholders listed in the share register (Aktienregister) are entitled to participate in the Annual General Meeting. The share capital of BayWa AG is divided into shares with restricted transferability (approximately 96 % in 2011) and registered shares (approximately 4 %). Transferring registered shares with restricted transferability is formally subject of the Board of Management's consent. According to the annual reports (e. g. 2010, 2011), this approval has never been withheld. Each share of BayWa AG carries equal voting rights and confers the same dividend entitlement. The company therefore does not apply the traditional cooperative "one man – one vote" principle, but it applies a "one share, one vote, one dividend" principle (Annual Report 2010, p. 163). As in the past, BayWa will ensure a balanced capital structure with a medium to long-term equity ratio target of 30 %.

The Business Model of BayWa Group

BayWa's business model is based on three main functions: trading, logistics, and services. Based on its historic roots as a secondary cooperative trading in rural areas, BayWa has evolved to a leading trading and logistics group. These activities are carried out in its three core business segments agriculture, building materials, and energy. The diversification in these three business units is seen as a stabilising component in its business activities. The company is convinced that its business model and policy are adequate instruments to minimise risks resulting from the upheavals and extreme volatilities in the global product and capital markets in recent years.

Business Model of the BayWa Group



Source: BayWa (2012a)

BayWa performs the various business activities in different product and regional markets. This diversity also explains BayWa's exposure to the needs and wants of a large range of customers, as there are farmers, end consumers, industry, commerce, and trade companies. As these three segments' target groups regularly overlap, a customer's experience in one segment is often transferred to other business activities. This is particular the case with the company's farmer customers for whom the offerings of other segments are also relevant.

In addition, the network of locations is supplemented by franchise partners. An example of this is the expansion of the Italian franchise centre, founded two years ago in Bolzano, which now supports more than 90 franchise operations. The aim is to position the whole segment as a profitable unit supporting the various sales channels of wholesale, retail, franchising and e-commerce using centralised resources and competences.

Financing

BayWa is targeting an equity ratio of at least 30 % in the medium and long term. This equity base constitutes a very sound figure for a trading company and forms a stable basis for business activities to develop. The equity ratio varies around this target of 30 %. In the fiscal year 2011 with 27.3 % it fell marginally below this threshold due to the borrowing of additional capital in order to finance the high running investments and the acquisitions to realise future opportunities for growth.

Short-term borrowing is used exclusively to finance short-term funds tied up in working capital. The status of short term borrowing disclosed at year-end regularly reflects the highest level of utilisation. This form of financing is due to seasonal influences; borrowings rise through preliminary storing of operating resources and through buying up harvest produce in the fourth quarter of the financial year. Consequently, there are annual fluctuations in the financial liabilities; most of this variance from year to year is primarily attributable to the varying prices commanded for agricultural produce and operating resources.

3.2.2 Strategy of BayWa

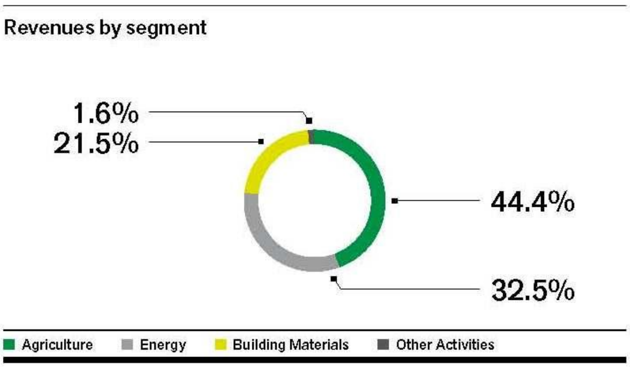
The current structure of the product and service portfolio BayWa AG is offering is the result of strategic decisions made in the past. Based on its historic roots of being an agricultural farm input and grain trading company, BayWa has developed this business segment to a European leading trading and logistic segment. This segment has been steadily diversified which results in the development of three core segments Agriculture, Energy, Building Materials. Within these three business segments BayWa has concentrated on core operating activities, like trading, logistics, services and finance. These business and operating activities were then transferred to various geographic regions within Germany and abroad (Austria, and 15 other countries). Business diversification led to the effect that BayWa is serving various target groups of customers as there are farmers, end consumer, industry, commerce, and trade companies. Within these segments customer groups' needs and wants very often overlap, so that regularly all business activities and segments are part of a customer relationship.

The Agriculture Segment trades in agricultural equipment and resources, collects, stores and sells plant products from the field through to the food industry. BayWa is one of Europe's largest full-line suppliers in the agricultural industry and trades worldwide. The Agricultural Equipment Business Unit sells machinery and equipment, buildings and facilities. Compared to other segments, its relative importance has been stabile over the last ten years at about 44 %. In the last five years, BayWa for example sold more then 3,000 tractors annually; this is a market share between 11 and 8 % measured by total sales volume of tractors between 28,000 and 36,000 in Germany. It is the intention of the firm to preserve this position as a market leader. In 2010, BayWa took over the Bavarian region as a general distributor for the Claas brand..

In Germany and Austria the Energy Segment is the Group's second largest segment with trades in heating oil, diesel and lubricants.. In addition, gas stations are also operated within the Group. The Group has concentrated its activities in project management and in the building and operating of wind farms, photovoltaic and biogas plants under BayWa r.e GmbH, a company wholly owned by the Group. The share in revenues of the energy segment has grown from 20 % in 2000 to currently 29 %.

The Segment of Building Materials (24 %) comprises trading in building materials and garden centers. The BayWa Group is Germany's number two in the building material trade and ranks among the leading suppliers in Austria. These DIY and Garden Centers sub-segment comprises retail activities.

Segment Share in total Revenues by Segment 2011 (in %)



Source: BayWa (2012c)

Recognition of two trends in the European agricultural industry formed the basis of BayWa's strategic concepts (visions). As described in its Annual Report of the year 2000 (?), "The first in the shift towards a business environment driven more by commercial forces and less by government intervention. The second major trend is the rapid integration of technology – and biotechnology in particular – into mainstream agriculture." BayWa designed a two-pronged strategy to respond to these trends: to modernise its grain handling business and to provide farmers with services beyond grain handling. Grain handling and merchandising were the core divisions within BayWa. The most tangible sign of modernisation was the replacement of many small grain elevators and locations.

Prior to the end of the 1990s, the agribusiness industry had undergone important changes. BayWa was facing the rapid consolidation of its farmer customers, which, coupled with the excess capacity of the industry, had increased pressure on both margins and profitability. There was evidence that funding constraints were shaping BayWa's strategy and its competitive response. The crop production services division, which sold farm supplies such as fertilizer, proprietary seed and consulting advice, was the largest of these divisions. The business was highly seasonal, with most of the sales and profits coming in the spring during planting season. In the years between 1975 and 1995 an acquisition program, including a number of purchases of local retail (cooperative) distributors, supplemented internal growth. Livestock Services manufactured and sold animal feedstuffs with superior production economics. The crop production services division offered financing programs for farmers who were trying to expand their own farm operations. Recognising the growing importance of technology (farm machinery and biotechnology) in agriculture, BayWa modified its strategic direction somewhat in the 1980's. The company began to seek out alliance, partnership, and acquisition options with "upstream" companies (seed companies, feed stuff nutritionists) as well as "downstream" food processors in order to form a de facto vertical integration through takeovers and alliances. This initiative was to control additional stages of the supply chain by extending its business activities from a wholesale function down to become a retailer as well and serving the farmers directly.

The creation of BayWa in its current frontiers has strongly been supported by the farmers who are (were) in effect the owner of the cooperative. It was also endorsed by the government of Germany that decided to allow the merger with the second largest multipurpose cooperative WLZ in the year 2001 in spite of the dominant position the merged business would have through its control of some 70 % of the farm business market in the southern part of Germany. The rationale for BayWa's merger was that it would remove duplication of activities; allow better decisions to be made in the vital European markets of farm input supply and grain trading; and provide the scale that was increasingly needed to operate effectively in these emerging international markets. The acquisition of the WLZ-Group was disputed by IOF companies and some primary cooperatives in Bavaria and Baden-Wuerttemberg. The takeover was also subject of an approval of the German Bundeskartellamt (German Antitrust Authority) and the cartel commission made an investigation on that merger (see Bundeskartellamt, 2002).

Global and Internationalisation Strategy

The growth ambitions of BayWa were and still are clearly well beyond what it could achieve in its traditional home markets, one, that was defined by the company from the outset, to be Germany and Europe (see Bundeskartellamt, 2002). BayWa's aim is to reinforce its market position in its core segments of Agriculture, Building Materials and Energy on an ongoing basis. At the same time, in-depth know-how in trading and logistics will be used to develop new, high-growth businesses. The strategy therefore combines a focus on traditional strengths and core competences with expanding new, profitable activities. The divestiture of non-core activities releases the capital necessary for investment in growth. Moreover, there is considerable potential for improving margins, especially in the new high-growth businesses.

In the 1980s BayWa streamlined its organisation and created "flexible, customer-oriented operating units". At the same time, it committed to renewable primary products, giving its customers ecological alternatives to traditional methods and products. As a result of the cooperative self-restraint, at first BayWa was only active in the area of the state of Bavaria. After the opening of the domestic Border in 1989, it expanded its field of activity to the new federal states, Saxony, Brandenburg and Thuringia.

Around these years, BayWa AG also entered the agricultural market of the neighboring country of Austria by acquiring majority shares in three regional Austrian cooperative organisations (51 % of Raiffeisen-Warenverband Tirole, and Warenhandelsgesellschaft "Unser Lagerhaus" in Carinthia and of Raiffeisen Ware Vorarlberg). The idea was to transfer the Bavarian agricultural trading and service system to Austria and to establish a similar structure (Ernährungsdienst, 1996). In the year 1999 BayWa entered the complete Austrian market and formed a strategic alliance with the RWA AG in Vienna. Five years later (2004) four formerly independent agricultural cooperatives from the federal state Burgenland joined the RWA as new members. Today, RWA has a total number of 44 local cooperatives distributed over Austria (see Kühl, 2011, Support for Farmers' Cooperatives; Country Report Austria, Giessen).

Three years earlier, BayWa negotiated a joint venture with the Hungarian cooperative trade organisation MOSZ Kft. (BayWa Hungaria 51 %, MOSZ Kft 49 %). The goal was to establish a nationwide agricultural trade network (Ernährungsdienst, 1995).

BayWa acquired with the Austrian Raiffeisen-Group the largest multi-purpose cooperative organisation and took over a large proportion of shares (50 %). RWA AG (Raiffeisen Ware Austria) was founded in 1988 and is a wholesale and service company of approximately 150 warehouse cooperatives in Austria. Consolidated sales amounted to 2.0 billion € in 2010. Services range from marketing of agricultural products, trade in agricultural inputs, construction materials and products for home, yard and garden to various services. In addition, RWA is an investment company with subsidiary operations in the domestic as well as in selected Eastern European neighbors. Since 1999, the company has been, under approval by the EU, part of a strategic alliance and has been shared equally to RWA Raiffeisen Ware Austria Creditanstalt AG Asset Management & Commerce and the BayWa AG. Since then, the strategic alliance between RWA AG in Vienna and BayWa AG has beenbased on a share exchange. By acquisition and participation of RWA BayWa has prevented a likely competition and market access of the Austrian company (Bundeskartellamt, p. 50). The company now maintains close business relations with around 500 cooperative warehouses in Austria. RWA pioneered CEE (Central and Eastern Europe) with its entry into Hungary and the acquisitions of several other cooperatives and distributors in Romania, Czech Republic, and Bulgaria. BayWa could participate in this expansion. BayWa was providing a lot of foreign capital in the foreign markets they entered: Austria, Hungary, Italy, and Poland. These capital contributions have doubled/tripled in the period from 2000 to 2011. Since the end of 2000 BayWa has become a global player.

The Austrian food producer Agrana Beteiligungs AG merged with the fruit concentrate subsidiary Ybbstaler Fruit Austria GmbH of RWA/BayWa by a joint venture. This merger was a further important step for BayWa towards internationalisation and consolidation of the competitiveness.

After having invested rather little in previous years, BayWa acquired 80-percent stake in the US-based Focused Energy. In 2011 investments in wind power and solar energy in Italy, Austria and the US took place. By the purchase of a majority stake in Turners & Growers, a fruit marketer based in New Zealand, BayWa has taken a major step in the internationalisation of its agribusiness. This acquisition is also an entrance gate to the Asian markets. The BayWa Group is currently rapidly expanding its international activities, especially through its subsidiary BayWa r.e (renewable energies). The expansion mainly occurs through acquisitions and equity investments. BayWa is a group with international operations in the core competencies trading, logistics and supplementary services in its core segments of Agriculture, Building Materials and Energy. Including franchise partner companies, the Group has about 3,000 sales locations in 16 countries all over the world. Its home markets are Germany, Austria and Eastern Europe. Currently, BayWa AG Group is holding 122 subsidiaries as consolidated companies, 55 (45 %) in foreign countries.

Internationalisation of business

In the past two financial years, BayWa turned its attention more to tapping new markets and new business lines outside its traditional domestic markets. The BayWa Group intends to pick up the pace in future, especially in its agricultural and energy-related activities. On the one hand, BayWa is increasingly approaching the limits of growth in Germany andon the other hand, the internationalisation of its business will make it more independent of developments in individual markets through geographical diversification. The influence of poor harvests due to weather conditions, or of changes in the legal framework conditions in the field of renewable energies in individual countries on BayWa's performance can be reduced. This gives BayWa even more stability.

The primary goals of BayWa are to continue its path of expansion and raise its profitability in order to strengthen its leading role in the competitive environment. Against the backdrop of changing markets and growing globalisation, BayWa also needs to expand more swiftly in its international business in the future to remain successful in the long term. Apart from augmenting its existing core business in Germany and abroad, BayWa pursues the strategy of making inroads into new and promising areas to put its business on a broader basis.

3.3 Relevant support measures affecting structure and strategy

The business development of BayWa AG as an international operating multi-purpose company raises a number of questions concerning the importance of support measures affecting the structure and strategy of the company. What have been the most effective and efficient policy measures and what was the influence of these measures on farmers´ position in the cooperative? In what way have multipurpose cooperatives developed a specific business model?

Since its beginning, BayWa AG has the legal status of a shareholding company and not that of a "traditional" or "typical" cooperative. Consequently, there are only a few policy measures relevant for producer organisations, which directly have an impact on the development of the structure and governance of the Baywa AG. The company's development primarily was affected by the general economic development and some more general support measures. These policy measures had a major impact on the business model and the development of its multipurpose business organisation. As a listed company since the year 2000 the most important measures can be found in the German Stock Corporation Act (Aktiengesetz) and in the stringent requirements of the capital market. Besides these impacts the single core business segments are exposed to specific policy developments that affect the development of the company.

While the direct influence of farmer members on the business policy and on the governance of a second-tier cooperative is relatively weak, it is even more marginal in a shareholding cooperative or company of the BayWa-type. The German cooperative law has no significant influence on the governance and the business policy of BayWa AG. The company is not "legally" recognised as "producer organisation" (PO). Generally, the revenues and turnover of the agricultural segment indirectly benefit from the financial position of the farmers. Farmers' propensity to invest will also benefit from the economic environment and the development of the agricultural markets.

The statutes of the company and the fact that the company's governance structure is not subject to the cooperative law allowed the company to deviate from cooperative principles: i.e. the possibility for cooperatives to conduct business operations with non-members, vote weighting, to generate equity capital from outsiders, the possibility for non-users (investors) to become shareholders, and lastly, letting a Management Board and a Supervisory Board ensure the management of cooperatives. These aspects created an autonomous status to the company independent from cooperative principles. Those farmers who wanted to benefit from market support need not to become members of a cooperative. Instead, they could become shareholders.

At international level, the Common Organisation of agricultural Markets, and specific provisions for certain agricultural products consequently impact cooperatives. Other sectoral laws at National or European levels have a strong impact on cooperatives. The legal framework of the German cooperative law is that flexible that it enables multi-purpose cooperatives – whenever the strategic planning requires –modifying the traditional cooperative principles towards more flexible governance models. But, in the BayWa case the application of the cooperative law was not an option because right from its foundation the requirements of a shareholder company came into place.

The adoption of new cooperative models (proportional investment cooperatives, member investor cooperatives, cooperatives with capital-seeking entities) as alternative to the traditional one has enabled cereals cooperatives to grow and to exploit their international interests. The past development of the large European cooperatives from Scandinavia, France, Germany, and The Netherlands are examples in this respect. This is a general description of the position of cooperatives and is not restricted to the cereals sector.

In all three business segments one can indicate a long list of current European (CAP) and national legislations were mentioned as policy measures. These regulations and policies have important impacts on the development of the different market segments of the company. The agricultural sector in particular, is subject of a larger number of policy regulations. But, the case study has shown that there is no clear influence of CAP on the competitive position of the company within the food chain, or on the relation of its farmer shareholders towards the governance of the company. As mentioned in Kühl (2011a, pp. 38) there is not much support for cooperatives in LEADER and other EU policies. In the discussion it should be kept in mind that the success of any particular policy is often dependent on complementary policies. It has to be emphasised that the problems of farmers coming from market imperfections and coordination in the chains cannot be solved simply by the EU and/or government support.

The role of cooperatives in other activities like, providing a market (e.g. auction), primary processing (producing intermediary products for the food industry), secondary processing (producing final consumer products), marketing branded products (private label products), or retailing (i.e. directly selling to consumers) has not been performed by the cooperatives to strengthen their position in the cereals supply food chain yet. Up to now most of the cooperatives increased growth by acquisitions or other activities to diversify their business. This has reduced risk and to some extent stabilized financial returns. For the future development it could be argued that cooperatives should only engage in businesses related to their members' production. Even so, there are opportunities for diversification into other functions in order to extend the horizontal and vertical boundaries of the cooperative. The milling industry could be an opportunity. Some cooperatives have experienced these investments.

The reform of Council Regulation (EC) No 72/2009 of 19 January 2009 concerning modifications to the Common Agricultural Policy has direct impacts on farmers and indirect on the marketing cooperatives. For cooperatives and producer organisations the modifications initiated more considerations about the future role of multipurpose cooperatives versus its competitive position in the market and towards IOFs (focus on cost efficiency, future growth perspectives, etc.). The reform covers all sectors of a multipurpose cooperative. Companies have paid special attention to good manufacturing and farming practice and the rules for putting much more attention on sustainable development have been applied on a wider scale. Agricultural product distributors like BayWa are important intermediaries between the farmer and the end market.

The analysis showed that the BayWa Group's business segments are more influenced by natural phenomena such as the weather or the harvest conditions (the agricultural segment), or by volatile price trends in the crude oil markets (the energy segment) than by policy measures. In recent years, the degree to which price trends in the regional markets depend on international influences, such as droughts or poor harvests in other parts of the world, has accelerated. This also applies to the extent to which the price trends of individual agricultural commodities influence one another. Moreover, fluctuating exchange rates and transport prices are exerting a greater influence on pricing in the regional markets due to the swifter pace of international integration. The growing significance of agricultural commodities has also exacerbated price volatilities. Finally, changes in the legal framework conditions, especially in the field of renewable primary products and renewable energies, can trigger considerable adaptive reactions in the markets trading in agricultural products.

Merely, the Building Materials segment is subject to pronounced changes in the political environment, in particular in the case of government policies on residential construction or government subsidies to promote renovation and refurbishment. The development of the building materials retail business generally tracks overall economic activities. Civil engineering and road construction in particular depend on public sector spending. In the area of private construction, incentives such as government subsidies for renovation or refurbishment measures, favourable interest rates for financing and changes in the feed-in tariffs for electricity generated by photovoltaic plants influence investment patterns. In addition, manifold regulations under construction law and construction directives such as energy conservation directives or the introduction of energy certification for buildings, construction approvals, public procurement law as well as directives on fire and noise insulation, influence investment behaviour and the demand for certain products.

Future strategy

BayWa announced to continue its expansion policy. In a recent interview in the well-known Frankfurter Allgemeine Zeitung (FAZ) BayWa CEO Lutz was cited with the words: "We are still looking for other investment options in the agribusiness trading sector" (FAZ, March 31st, 2012, p. 19). It is himself who inherited the results of a strategic review permanently undertaken during the past years, which sought to move the business strategy out of 5 to 10 years into the future.

"The need for us to grow is the order of the day in the global markets. In our Agriculture Segment, we intend to seize the opportunity of entering the markets of countries where we are not yet represented. We are especially targeting EU countries. There is also great potential for international development in the field of renewable energies where we already have activities not only in Germany but also in a number of European countries as well as in the US**."** (BayWa, 2012b).

It included the analysis of trends in the international markets of solar energy (BayWa is already present in this market) or of fruit and vegetable (BayWa recently announced the acquisition of the largest New Zeeland fruit trader who has the potential to open up the Asian market) and BayWa's own strengths and expertise.

1. Low-cost supplier of commodity farm input products
2. Leading price and inventory manager in the European commodity market
3. Effective provider of energy and building supplies in selected markets
4. Leading consumer fruit product marketer
5. Develop integrated strategies for four or five key regional markets (China, Eastern Europe, USA, Central Europe).

BayWa could position itself in a way that would allow responding efficiently and effectively to the volatile and unforeseen market conditions that were likely to emerge.

4. Analysis by comparison

Market segments and success in the supply chain

In both cases, Agrial and BayWa are major multipurpose cooperatives resp. companies in their home countries. For both companies their historic paths are characterised by economies of scale and scope. With its activities in the cereals, beef, pork, poultry, dairy, fruit & vegetables, wine, and farm machinery sectors, Agrial has diversified within the traditional agribusiness sector, while BayWa's diversification extended the traditional agricultural borders and invested heavily into segments like, energy and building materials, not directly related to the agricultural segments. As multipurpose cooperatives or companies, Agrial and BayWa have developed their structure to allow adopting different competitive strategies for its members/shareholders in each sector. Currently, Agrial is the European leader in ready-to-eat vegetables market, while BayWa is in its agricultural segments one of Europe's largest full-line farm input supplier and plant-based products' trader. It is the third largest farmers' cooperatives in the food chain of cereals (see Kühl, 2011, p. 20) and, in the German agricultural market, BayWa is the second largest company. As a multipurpose company, BayWa is operating in various sectors and sub-markets. In the Building Materials markets, BayWa is Germany's no. 2 and ranks among the leading suppliers in Austria. Both companies are a major player in various supply chains with bargaining power versus farm input selling industries and versus the food industry. The same applies to Agrial that is in the Top 3 of French cooperatives. However, although it is quite a big cooperative in France, it is not a leader in any of the sectors it is involved in.

Both companies gained their market importance by past merger and acquisition of larger competitors. It was not possible to measure how much of the companies' development is due to internal and which part is subject to external growth. But, both companies' development is characterised by a number of merger processes. In 2000 AGRIAL was set up, as a result of a merger between three cooperatives AGRALCO, ORCAL and COOP CAN, and since then it has become a major multipurpose cooperative in France. BayWa, formerly a pure wholesale company, merged with and acquired a larger number of primary cooperatives, before it merged with the large wholesale and retail cooperative WLZ, Stuttgart from its neighbouring Federal State Baden-Wuerttemberg in the year 2002. These various mergers and acquisitions coupled with several structural transformations turned the former wholesale companies also into the retail business directly with the farm sector. Since the 70s, these strategic moves have turned the companies closer to the upstream levels in order to decrease the transaction costs in dealing with the farm sector. On the downstream level of the supply chain, both companies made a number of investments into food processing and retail companies in order to capture added-value. Agrial e. g., has a partnership with Bongrain and in 2011, the Board decided to invest in the dairy activity. Taking advantage of Agrial's image in ultra-fresh products (ready-to-eat, poultry), Agrial initially took a 50 % share in Senoble, and in February of this year it became the majority shareholder. In the poultry sector, Agrial has a dominant position, since it has had few dealings with the large retail sector. That strategy allows Agrial to improve remuneration of its members. Today, Agrial for instance is reported to have reached equilibrium, with 50 % of the turnover with upstream activities and 50 % downstream. Recently, BayWa invested through its subsidiary Raiffeisen Ware Austria (RWA) in a 49 % share of a fruit juice holding of Agrana, the German Austrian based sugar company.

Both companies started as multipurpose cooperatives corresponding to the diversity of their members' productions. The decision to have a multipurpose cooperative or shareholding company is based on the logic of being regional and of being national leader for members' productions in some market segments in order to minimise economic risks and to provide a product portfolio better preventing from market risk exposure.

Internationalisation of cooperatives

In this analysis, our goal was to develop an in-depth understanding of the nature of the multipurpose cooperative firms' internationalisation . The aim was to develop a comprehensive framework to illustrate particular aspects of companies' market-driven strategies.

Our first finding indicates differences in the starting time of the individual internationalisation process. BayWa started its international expansion in the middle of the 1980s by several joint ventures with Austrian regional cooperative organisations. Agrial's internationalization started 12 years ago in the vegetable sub-sector with Florette and Priméale. In 1999, Florette set up a production unit in England. Afterwards, Agrial bought processing plants in Spain and in England. Selecting these strategies in orderto enter at first neighbouring markets may have to aspects: one is the opportunity to find an appropriate partner and the other is a historic or specific cultural proximity that decreases the likelihood of conflicts due to cultural differences between foreign subsidiaries and the home country.

Agrial now has 11 successful production units in 5 countries (France, Spain, Italy, Swiss, and England). This strategy of foreign investment can be explained by its relations with the distributors who want all-year-round products coming from a limited number of producers. Agrial's internationalisation is, therefore, essentially confined to the vegetable chain. Agrial has now become the French leader in cider, even though it only started in 1995. The current strategy is to become an international operating company. That is why it recently bought an organic apple plant in California. The take over of this family business, which processes farmers' produce, allows Agrial to export cider, in addition to the existing range of products distributed by this business (vinegar, apple juice). BayWa started its process of internationalisation by initiating various joint ventures in Austria that resulted in 1999 in a participation in the Austrian Raiffeisen organisation by acquiring a major share of the RWA AG. This acquisition opens up the entrance into the Central and East European agricultural markets. RWA AG had pioneered these regions years before, so that BayWa could best benefit by this cooperation.

Except for the pre-internationalisation period both companies used external growth by merger and acquisition. Investment and internationalisation benefited from the financial resources of the companies. There seems to be sufficient capital resources available for investing abroad thanks to the traditional agribusiness that enabled the companies to secure substantial profits for these activities. Since international expansion is a risky investment, both companies' entries into international markets started with joint ventures and after acquiring successful experiences later resulted in full acquisitions. In most cases, foreign partners were non-cooperative legal entities and these foreign subsidiaries were set up as profit making centers without duplicating some kind of cooperative model. For both companies, even if they are cooperatives (like Agrial) or a shareholder company with minor cooperative stakes (like BayWa AG) farmers' participation in the decision process of going international was of minor importance. It is the option to benefit from substantial return on investments that drives the strategy for internationalisation and not some kind of countervailing power or transfer of cooperative ideas.

The strategies to enter international markets the two companies exerted can be described as multi-domestic strategies. This concept is often the preferred way to compete when regional markets contrast with one another in terms of consumer tastes and preferences as well as competitive conditions. The more diverse the regional or national market conditions the greater is the appeal of the multi-domestic strategy. A multi-domestic strategy is a collection of country or region-based strategies, where each region or country (defined by the firm's economic reach and organisational approach) possesses its own set of value-adding activities or value chains. A number of economic and industry-driven factors promote the use of multi-domestic strategies for a given industry. These industry drivers include heterogeneous demand patterns across markets, few economies of scale in production, high product transportation costs, variations in distribution channels across markets, and the need to source products locally because of perishability, legal requirements, or specific types of ingredients or components.

Firms pursuing a multi-domestic strategy adjust and tailor their products and practices to the individual needs of each market. As opposed to a global strategy, a multi-domestic strategy treats each market independently and separately. Firms pursuing multi-domestic strategies also view competitive challenges in the context of local conditions and therefore do not attempt to form a completely unified, system-wide approach to building and extending competitive advantage. Key to a multi-domestic strategy is treating each market as a unique area from which to differentiate the firm's products as much as possible from those of local producers or other multi-domestic competitors.

Internationalisation allowed the companies to overcome the limits of domestic growth. International expansion was and still is a necessity to further growth because domestic markets were relatively early maturing and no real additional growth rates were available. For BayWa AG, nearly all further steps to acquire or to merge with a domestic firm will be subject to an approval by the German antitrust authorities.

Cooperative Policy measures

For the French cooperative Agrial we can conclude that a number of cooperative specific policy measures have had an impact on the development of the cooperative and on its strategies and governance. The most important measures can be found in the law of August 1962 that recognises agricultural cooperatives as producer organisations and in the cooperative law of 1972, which relaxes from some important cooperative principles. These changes in the cooperative legislation paved the way for cooperatives to conduct business operations with non-members, vote weighting, the re-evaluation of their registered capital, the possibility for cooperatives to find new growth opportunities by offering the possibility of doing business with non-members, and to offer non-users (investors) to become members. It also transferred the management of cooperatives to a Board of Directors and a Supervisory Board. Twenty years later, the laws of January 1991 and of July 1992 constitute the key for understanding cooperative development in France. Both laws allow outsider investors (non-user members) to buy shares in the registered capital. They also allow cooperatives to withdraw from the cooperative legal status if their supervision authorities grant them permission to do so. For Agrial, the different laws definitely impacted its subsidiarisation and its multipurpose organisation.

In opposite to the French cooperative system, the German cooperative legislation was not that restrictive and it enabled cooperatives – whenever the strategic planning required – to modify the traditional cooperative principles towards more flexible governance models. That, what appeals to the cooperatives in general, does not affect BayWa in a special way. Due to its legal status as a shareholder company with its roots in agriculture, cooperative law principles nearly never have been applied to the business policy. As a listed company since the year 2000 the most important measures are to be found in the German Stock Corporation Act (Aktiengesetz) and the stringent requirements of the capital market. Besides these impacts the single core business segments are exposed to specific policy developments that affect the development of the company. As described in its 2000 (?) Annual Report, "The first in the shift towards a business environment driven more by commercial forces and less by government intervention." To assure supplies of agricultural products, reduce price fluctuations and support the agricultural industry, the Common Agricultural Policy (CAP) regulated the farming sector to some degree. In Europe, regulation varied by type of agricultural product. Agricultural product distributors like BayWa were important intermediaries between the farmer and the end market. In legal terms, the distributor BayWa served as the EU's agent in handling grain (for intervention), but as a principal for transactions with farmers on non-intervention grains. As a "policy's" agent, BayWa did not have exposure to price fluctuations while grain was in custody. For "non-policy" grains, however, BayWa was the legal owner who assumed price risk for grains it held. Distributors like BayWa could use and often have used commodity futures markets to hedge themselves against short-term fluctuations in non-policy prices for grains. Going public made up the option of raising financial capital in a more convenient way. But, on the other hand, it has also some weaknesses. As a listed company, it also attracts the attention of the capital market. Expectations of return are derived from a peer comparison with other multinational operating firms. BayWa also comes under the scrutiny of the capital market and must fulfil expectations placed on achieving a competitive return. The expansion of business is made on the basis of a sound capital structure with an equity ratio of at least 30 percent. BayWa draws the capital necessary for investment in growth primarily from the operating cash flow generated by its core activities as well as by divestiture as part of streamlining its portfolio of non-core activities. Once the necessary transfers to equity have been made from retained earnings for the financing of the planned company growth, BayWa also pursued a policy of consistently paying rising dividend to its shareholders to enable them to participate in the successful implementation of the corporate strategy.

Relationship between cooperative success and internal governance

Cooperatives may follow different strategies abroad than those that they follow in the home country. This may be explained by their history, their market position, and their supply chain relations. More generally, we can say that cooperatives apply different business models at home than they do abroad. Different business models may lead to a different type of relation with the farmer-members and customers suppliers but, may also lead to quite the same economic success of the company.

Both cooperatives are successful operating companies in their market environments. But, both companies have quite a different organisational and governance structure. Similar to both companies is that they proclaim to keep a close proximity between members, regions and the cooperative executives. They are executing this aim in a different way.

Agrial developed a specific geographically decentralised organisation model: a production-oriented cooperative based on proximity with its members. Fourteen regions (14 mini-cooperatives) were set up, each of them is an autonomous decision centre. Each mini-cooperative is restricted to 500-600 members and benefits from geographical proximity. Decision making is delegated to 16 strategic activities and 8 sectors: 4 upstream and 4 downstream. The strategic activities which characterise the group, are independent of each other, and each of them can form alliances according to their development needs. Those activities must attain minimum profitability goals and they are autonomous in their decisions how to reach the goals. This type of organisational structure is a result of the filière organisation with head offices and a Board, elected by producers, with a team in charge of administration aspects located in the production areas of the Group. Agrial's headquarters in Caen has, in all, only 20 employees in its group management services (institutional relations, finance, and communication).

Strategic and operational decision making is transferred to the management and the Governing Boards in Agrial. The Board is made up of all 14 regional chairmen, and of two sector delegates. As for the Executive Board, it is made of 15 members. That number may seem very high, but it is justified by the fact that the cooperative is a multipurpose. Strategic decisions are worked out in each sector. With this type of organisation Agrial tries to satisfy members' needs and to secure the different interests and the diversity of regional productions and the extensive territory covered by Agrial.

Over the last twenty years, it was BayWa's intent to become premier provider of innovative customer solutions in its traditional agricultural sectors as well as in its relative new ones energy, and building materials. This represented a radical change, although it did not mean that BayWa was exiting in the agricultural commodity trading business, instead, it meant that it was getting rid of the commodity mindset. In order to execute the new strategy, BayWa undertook fundamental change. It reorganised its divisional and geographic structure, reengineered core processes, streamlined decision-making, and modified its vertical and horizontal boundaries.

While restructuring its business portfolio, BayWa was particular mindful of the boundary conditions determined by its history as an agricultural based company, including retaining the company's cooperative shareholder nature without compromising its credit rating. This meant that BayWa had to look for creative ownership structures for businesses that it could not found internally. For example, when BayWa wanted to go for international diversification, it decided to become a publicly listed group, which marked the first time BayWa had gone public.

As a federated regional cooperative organisation, BayWa is owned by other cooperatives in a pyramid ownership structure. Besides these owners, BayWa has also a mixed structure with individual shareholders in addition to cooperatives shareholders. Given the shareholder structure, which had been stable over the past years, a significant participation of farmer shareholders in the company is not obvious. German farmers are members of local cooperatives and these cooperatives are individual shareholders with a share of only 0.65 % in the Bayerische Raiffeisen-Beteiligungsgesellschaft (BRB) which has a share of 35 % in BayWa AG. We do not know how many agricultural producers hold share capital through the free float proportion of 40 % but, it can be assumed that producers' institutional influence on the ownership structure is diminishing. On the other hand, BayWa AG's management is well aware of its reliability on the agricultural sector and the regional cooperatives. The Cooperative Council that was installed additional to the Advisory Board gives some evidence to keep some kind of proximity to rural stakeholders.

As a cooperative, Agrial's primary objective is to serve member needs and to add value to their operations. As a primarily stakeholder cooperative, BayWa's objective is to serve stakeholder interests and to enhance the financial well-being of its investors. Both aims are not contradictory per se. but the way of achieving them and the role producer participation plays are different.

Our analysis comes up with the following results: as a member-driven cooperative or a stakeholder cooperative, both companies had grown and changed along in particular with the area's agricultural economy. Throughout their history, Agrial and BayWA had been leader in identifying, evaluating, and promoting new technology to nature-based industries. Agronomic innovations such as modern seed varieties, farm machinery technology, harvest storage and logistics technology were transferred to primary producers. Both companies played also a broad role as a local educator and sought to increase its members' or shareholders perspectives on agricultural opportunities and the future of global agribusiness. These opportunities include the realisation, that investments in value-added services along the supply chain and in an efficient asset structure are main objectives that will bring benefits to the members or investors. That is why both companies realised that it was not sufficient to focus solely on grain and agronomy, but serving evolving markets – like food processing segments in the case of Agrial and energy and building materials markets in BayWa – are the areas of strategic planning and investment. Both companies decided to focus on supply chain solutions to demonstrate the value to the customers of their relationships nationally and in a European or global context.

5. Conclusions comparative analysis

With Agrial and BayWA AG, the subject of our analysis involves two multi-purpose and federated operations, which have certain characteristics in common and others being different.

Both are traditional companies with quite a long history in agriculture. Agrial was set up in 2000, but it is the product of a long series of mergers between various cooperatives. BayWa was founded in 1926 as a shareholder company with agricultural and credit cooperatives as shareholders. Agrial basically still has maintained its cooperative character, despite the fact that it has a holding structure open to IOFs or other investors. Owner-members of the cooperative can also directly buy social capital. In publications (e.g. annual reports), Agrial uses the term “member” or “farmer member” if it comes to a description of the governance structure of the organisation. These expressions are not to be found in the terminology of BayWa’s publications. It is, with respect to its corporate structure, the wording “investor” that is predominant in the annual reports.

Both companies have invested in international market entrance by joint ventures and acquisitions. Despite all these activities, they are still anchored in their traditional regional markets. Agrial and BayWa made investments in vertical food processing stages along the value chain or in non-food activities: Agrial is engaged in processing in the dairy, cereal, cider, fruit and vegetable sectors. The proportion of non-food activities is rather low (machinery represents only 3% of the consolidated turnover of Agrial). In opposite to this development, BayWa’s strategy was to invest basically in non-food activities, like building materials and the energy markets. In recent years, the company put more focus on value-added activities in the European and international fruit and vegetable sector.

With their different strategies, both companies were successful operating in their markets. They are, measured by turnover, large companies compared to their closest competitors: Agrial is the European leader for ready-to-eat vegetables and the French leader for cider. BayWa is the European largest multi-purpose farm input and marketing company. For the future development, both companies have set up set up clear strategic concepts: Agrial proposes many different strategic projects to its members. Its implication in sustainability is clearly engaged, with the societal, environmental and economic involvement of all its members. The perspective of massive investment in dairy activity symbolises Agrial’s intention to become a leader in that field in order to create added-value for its members. BayWa’s aim is to reinforce its market position in its core segments of agriculture, energy, and building materials by innovation and internationalisation. The strategy should combine the focus on traditional competencies and expanding new and profitable activities.

6. Overall conclusion

Below, the research questions and hypotheses are answered based on the information gathered and analysed above. Most of the research questions have been addressed in the text in more detail.

Both companies are second-tier companies and are involved in farm input and farm product marketing as well asfood processing with a national and international scope. The relatively high market shares they could gain in their regional markets forced both companies to invest in internationalisation and collaborations outside of their home countries. Both companies try to keep strong proximity with their members (Agrial) and stakeholders or resp. farmer customer (BayWa). Over the past ten years, both companies have proven efficient and no governance problems were reported.

Strategies for Agrial cooperative include investing in product differentiation and cooperative diversification with the aim to add more value to the product lines. In order to develop these strategies, Agrial changed the organisational structure to a decentralised organisation by setting up various regions managed as a profit centre. In the past, BayWa selected three market segments to concentrate its strategic focus on: agriculture, energy, and building materials. Our analysis demonstrates that the company will continue to concentrate on its core businesses as a service provider, trade, and logistic company in these segments. While it became nearly impossible to grow in market shares in the German home market by acquisitions (anti-trust regulations) the strategic focus is on internationalisation of the Group's business. As a large retailer itself, BayWa knows best what it means if purchasing power of large buyers increases. That is why the company's strategic moves are directed towards international investments – in particular in the fruit segment with the purchase of a majority stake in Turners & Growers, a large fruit marketer based in New Zealand – in order to fulfil the expectations of large retailers in offering a full spectrum of product categories to ensure reliable deliveries of a seasonal range of products depending on the time of the year.

In both companies, the historical development had affected the strategies and the structures of the (shareholder) cooperatives. At the time of its foundation, BayWa's corporate model was that of a shareholder company for first-tier cooperatives. Going public, BayWa became a shareholder cooperative with groups of shareholders basically not situated anymore in or close to the agricultural sector. As a cooperative with several thousands of single members, Agrial is differently organised. It is still a member-based producer organisation, despite the fact that it opens the cooperative to IOFs and others to become investors in a Agrial holding company.

Analysis of Hypothesis

H [3] Managers of cooperative firms prefer to run foreign operations like an IOF

In both cases, management of the companies is delegated to the Board of Directors. It is responsible for the strategic and operative decisions of the organisation. Investments into foreign subsidiaries are best justified and the success can be best measured by using standard financial criteria used in IOFs. And, managers are not interested in dealing with the members of a foreign cooperative. This hypothesis is generally supported as co-operatives that compete in foreign markets are best managed by IOF-like principles instead of using member related measures like member participation in the decision processes. This is particularly true given the foreign investments in countries like the UK, Spain (Arial) and CEEC, US and New Zeeland (BayWa).

H [6] Larger cooperatives are less likely to invite foreign suppliers to become member than small cooperatives.

This hypothesis is neither accepted nor rejected. These case studies are dealing with large market leaders in their home market. Smaller cooperatives or companies and their attitude towards foreign suppliers were not subject of the analyses and were not mentioned during the interviews.

H [13] Foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective.

This hypothesis is supported. In both cases, foreign collaboration starts with a joint venture and later results in a full acquisition. The foreign subsidiaries are set up as profit centers. Producer organisations in form of a cooperative do not play a role in this respect

H [14] Cooperatives going international are not likely to invite their foreign farmer-suppliers to become members as domestic members fear a dilution of income rights.

This hypothesis relates only to case of Agrial as it has the typical characteristics of a cooperative. In the sense of its foreign acquisitions this hypothesis can not be accepted. There was no expanding of the membership base connected to the foreign investments.

H [15] Cooperatives going international will apply different business models in their foreign operations, which will lead to a different relationship with foreign farmers.

This hypothesis can not be accepted. Our analysis has demonstrated that both companies are running their international business and their acquisitions in the same way as they are running their home business. There is some cross-cultural management to consider the differences in values and norms between home and host country nationals but, business models and relationships do not deviate from that what is common at home.

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Exhibits

Exhibit 1: Key figures of Agrial (2011)

Creation	2000
Local Headoffice	Calvados (14)
Legal Form	Agricultural Cooperative Society (SCA)
Cooperative Type	Coop – Holding – Subsidiaries
Territorial area	7 Départements (la Manche, le Calvados, l'Orne, l'Ille-et-Vilaine, la Mayenne, la Sarthe et l'Indre-et-Loire).
Brands	Florette, Manon, Priméale, Prim'Co, Loïc Raison, Ecusson et Danao
Activities	Cereals, Animals, Milk, Vegetables, Cider, Distribution, Machinery.
Subsidiaries	Prim'co (99.12%), Districo (99.98%), SM3 Elevance (100%), Sama (94.56%), Centre Sem (77.51%), Soleco (98.06%), Créaline (98.06%), Secoué (99.12%), Socadis (99.12%) and CCLF[13] (97.80%), Florette (98.06%).
Minority Participations	Syral, CLE, Socopa Viandes

Key Figures	**2008**	**2009**	**2010**
Group Sales Turnover (M€)[14]	1,910	2,171	2,261
For the Cooperative	972	1,156	1,211
Number of Group employees	7,065	7,715	7,300
For the Cooperative	915	1,296	1,302
Number of Members	8,000	10,000	10,000
Number of Supply Centres	180	215	220
Number of Silos	57	116	116
Board Organisation			
Total number of Board members	122	182	170
Number of Board members by production sector (cooperative)			
Cereal Products	16	51	51
Animal breeding (Cattle, pigs, poultry, horses)	73	92	92
Milk	6	6	6
Fruit and Vegetables	3	3	3
Other products	20	24	12

[13] Cidreries du Calvados La Fermière
[14] End of the Financial Year 31 December

Exhibit 2: **Table Policy Measures Description (France)**

Name of Policy Measure	**Type of Policy Measure**[15]	**Objective of the Policy Measure**[16]	**Target of the Policy Measure** [17]	**Expert comment on effects on development of the cooperative** [18]
The 10th of September 1947 Law concerning cooperative legal status The main texts are in Title II Book V of the Rural Code (art. L.521-1 to L. 529-6 and R.521-1 to R.529-2 *Loi n° 47-1775 du 10 Septembre 1947 dite Loi portant statut de la coopération*	Cooperative legislation/ incorporation law	Correction of market or regulatory failures and Attainment of equity or social goals	Applicable to business in general	This law distinguishes between cooperative and investor-owned firms. It sets their modes and terms of functioning as Agricultural cooperatives
Agricultural Orientation laws of 1960 and 8th August 1962 on the economic organisation of producers, modified by the law of 5th January 2006 : Organisation of Producers *Lois d'orientation agricole de 1960 et du 8 Août 1962 sur l'organisation économique des Producteurs modifiées par la loi du 5 janvier 2006 Organisation de Producteurs*	Market regulation and competition policies	Correction of market or regulatory failures and Attainment of equity or social goals	Applicable to business in general	Extends the classification « Group of Producers » (GP) to all non-profit making organisations and trade unions which adopt collective rules for production and distribution (art. 24) This became the Organisation of Producers (L.555-1 Agricultural orientation Law 2006).
Codification of Rural Code Book V Title II legislative and regulatory (Law of 27 June 1972 concerning agricultural cooperative and their unions) *Codification Code Rural Livre V titre II partie législative et réglementaire (Loi du 27 juin 1972 relative aux Sociétés Coopératives Agricoles et à leurs unions)*	Cooperative legislation/ incorporation law Financial and other incentives	1. Correction of market or regulatory failures and Attainment of equity or social goals	Specific to cooperatives L.521-3	The Law has characterized agricultural cooperatives as enterprises between farmers in order to « use all means needed to facilitate or develop their economic activity or to increase or improve the results of this activity ». The Law specifies that agricultural cooperatives are variable equity capital companies which are neither civil or commercial. This statute comes with options

[15] **1. Mandate** e.g. 1.1. Cooperative legislation/ incorporation law e.g. 1.2 Market regulation and competition policies ; **2. Inducement** e.g. 2.1 Financial and other incentives ; **3. Capacity Building** e.g. 3.1 Technical assistance ; **4. System Changing ; 5. Other.**

[16] 1. Correction of market or regulatory failures or 2. Attainment of equity or social goals.

[17] 1. Specific to cooperatives ; 2. Specific to an agricultural sub-sector; 3. Applicable to business in general

[18] Description of how the policy measure the affects development of cooperatives, by reasoning in terms of building blocks: - Position in the food chain ; Internal Governance ; Institutional environment of the cooperative.

				reaffirming the fundamental principles of cooperation found in the Law of 1947. This enables operations with third parties up to 20 % of Sales Turnover (L522-5) and allows the admission of investor members without any activity commitment (art L522-3 et -4).
Law n° 91-5 of 3rd January 1991 dispositions concerning agricultural cooperative *Loi n° 91-5 du 3 janvier 1991 dispositions relatives aux organismes coopératifs agricoles*	Cooperative legislation/ incorporation law Financial and other incentives		Specific to cooperatives	Cooperatives provide financial resources to enable them to develop their activities, particularly through subsidiarisation. It establishes a new form of distribution of the annual surplus which consists of dividends received from subsidiaries in addition to the specific results of the cooperative.
Law of 13th July 1992 : Law of the modernisation of cooperative companies *Loi du 13 juillet 1992 dite Loi de modernisation des entreprises Coopératives*	Cooperative legislation/ incorporation law Financial and other incentives		Applicable to business in general	A new category of shares was created for agriculture cooperatives : Shares coming with special advantages (" Parts à Avantages Particuliers"). This measure has only started to produce results recently.
Ordinance n° 2006-1225 of 5th October 2006 *Ordonnance n° 2006-1225 du 5 octobre 2006*	Financial and other incentives	Attainment of equity or social goals	Specific to cooperatives	Art. L 524-6 of Rural Code extends articles L 233-16 to 27 of Commercial Code concerning the control of companies and the consolidation to agricultural cooperatives and their unions Creation of "High Council for Agricultural Cooperation" ("Haut Conseil de la Coopération Agricole ») (L. 528). Share Savings (" Parts Sociales d'Epargne") L. 524-21. There shall be shares of savings, resulting from the allocation under Article

				L. 524-2-1, according to the Board's recommendation and after approval of general assembly, a portion of distributable income for the year. Those shares are a specific class of share capital of the cooperative. Their terms of repayment and sale are subject to special conditions set by the by laws.
Law of 5th August 1920 art. 1382-6° **General Tax Code (GTC)** Loi du 5 août 1920 art. Code Général des Impots1382-6°	Financial and other incentives	Attainment of equity or social goals	Specific to cooperatives	Exoneration of **property tax** for properties with buildings permanently and exclusively dedicated to farming used by cooperative companies and their unions.
Decree of 9 th December 1948 GTC art 207-1-2° and 207-1-3° *Décret du* *9 décembre 1948 CDI art 207-1-2° et 207-1-3°*	Financial and other incentives	2. Attainment of equity or social goals	Specific to cooperatives	Exoneration of corporate tax in favor of supply and service cooperatives and their unions for operations with members, provided that those companies respect their legal obligations Exoneration of corporate tax in favor of agricultural production, collect, process and sale cooperatives, except for sales made in their retail shop separate from the main establishment , for operations with non-members : processing operations concerning products or sub-products other than those designed for feeding men or animals or able to be used as raw materials in agriculture and industry.
Law of 29th July 1975 art. 1451 (GTC) completed by art 1468 *Loi du 29 juillet 1975 art. 1451* *complété par art CGI 1468*				Exoneration of Corporate Property Tax Contribution (CFE) (« Cotisation Foncière des Entreprises ») in favour of agricultural cooperatives and their unions, either when they have no more than 3 employees, or when they

				are concerned by certain designated activities : electrification, rural development, use of agricultural material, artificial insemination, prevention and other actions **concerning animal and vegetal diseases, vinification, fruit and vegetable packaging, organisation of auctions.** Deduction of 50 % of the **tax levy base** of the Corporate Property Tax Contribution (CFE) : agricultural cooperatives and their unions which are not entitled to the exoneration accorded by article 1451 of the GTC. Contribution to VAT in accordance with EU law.
International policies more specific Common Organisation of agricultural Markets and on specific provisions for certain agricultural products (Single CMO Regulation)				Regulation (EC) No 1234/2007 provides a single legal framework governing the domestic market, trade with third countries and rules regarding competition. The same restructuring movement for Fruits and Vegetables with the tools needed to make industrial performance.
Council Regulation (EC) No 72/2009 of 19 January 2009 on **modifications to the Common Agricultural Policy** by amending Regulations (EC) No 247/2006, (EC) No 320/2006, (EC) No 1405/2006, (EC) No 1234/2007, (EC) No 3/2008 and (EC) No 479/2008 and repealing Regulations (EEC) No 1883/78, (EEC) No 1254/89, (EEC) No 2247/89, (EEC) No 2055/93, (EC) No 1868/94, (EC) No 2596/97,				This reform has important impacts on farmers and consequently on their cooperatives. For the former, it acts on the system using the authorisation of quotas and the ensuing production levels. For cooperatives and producer organisations, it has strengthened their role in the organisation of production and distribution by forcing them to join together to carry more weight (lean

(EC) No 1182/2005 and (EC) No 315/2007				production). It covers all sectors and the entire French territory. Cooperatives have also paid special attention to good practice (farm advisory services), and participated in the development of innovative agricultural systems. The cooperatives have set up a Charter of agricultural Advisory Services from the perspective of sustainable development (2002 and certification of farm advisory system) and traceability standards (Agriconfiance). Over the past 10 years, they have developed management systems to improve their methods of governance.
Council Regulation (EC) No 73/2009 of 19 January 2009 establishing **common rules for direct support schemes for farmers under the common agricultural policy** and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003				The effects of Council Regulation (EC) No 73/2009 are visible for all industries. They lead to the need to strengthen the partnerships and mergers of cooperatives that are impacted indirectly. .
Council Regulation (EC) No 74/2009 of 19 January 2009 amending Regulation (EC) No 1698/2005 on **support for rural development** by the European Agricultural Fund for Rural Development (EAFRD)				Cooperatives are fundamental actors of territories. They organize production in order to support farmers and help young farmers to become installed. So the territorial roots of French cooperatives confer on them a decisive role in local economic development and in the environmental sustainability of rural areas.
the Regulation 1435/2003 on the Statute for European Cooperative Society				As the French National report explains, a new title III *bis* is inserted in

completed in French law until June 2009 Law n° 2008-649 of 3rd July contains various provisions adapting company law to community law Decree n° 2009-767 of 22 June concerns the European Cooperative society				the law of 10 September 1947, called the ―European cooperative society. That title includes seven chapters and articles numbered 26-1 to 26-38. Article 26-1 constitutes the sole article of chapter I, devoted to the general provisions. It defines the conditions under which the European cooperative acquires legal personality, as well as the provisions applicable to its constitution and to its operation in France. Moreover, by **making use of an option contained in the regulation**, it prohibits dissociation between the registered office under the articles of association and the actual head office, in the interest of consistency with the provisions applicable to the European company. (Article 6 regulation SCE) In articles 26-2 to 26-6, Chapter II establishes the procedures relative to constitution of the European cooperative registered in France. In France, there is a clear lack of knowledge about the transnational tool and its concrete potential along with insufficient adoption by economic actors.

Exhibit 3:

Annual Revenues of BayWa Group and Distribution by Segments

	1997	2011
Total Turnover	3.820 Mio €	9,584 Mio €
Agricultural Segment	46 %,	44 %
Building Materials	38 %	21 %
Energy	14 %	32%
Other Acticvities	2 %	3 %

Source: BayWa Annual reports

Exhibit 4: Group companies of BayWa AG (Source: Annual Report, 2011)

Agriculture and Fruit Segment

Bayerische Futtersaatbau GmbH, Ismaning

The core business of Bayerische Futtersaatbau GmbH is the production and sale of high-grade seed for farmers and landscaping.

BayWa Vorarlberg Handels GmbH, Lauterach, Austria

BayWa Vorarlberg rounds off the Group's Austrian trading activities in the region. Its sales territory covers the western stretch of Austria. As part of the Agriculture Segment, the company operates in the sale of agricultural produce and trades in agricultural equipment and resources.

BOR s.r.o., Chocen, Czech Republic

BOR is a company trading in the Czech Republic in operating resources and equipment as well as sgricultural produce.

EUROGREEN Group

The Eurogreen Group operates from its locations in Betzdorf, Germany, JiretinpodJedlovou, Czech Republic, and Oensingen, Switzerland, as a system integrator specialised in lawn care, premium lawn care, regeneration and reconstruction of commercially used lawn. It also sells a wide range of special fertilizers and seed for lawns.

F. Url& Co. Gesellschaft mbH., Unterpremstätten, Austria

F. Url is specialised in trading with food of domestic and international origin. Its range comprises exclusively high-quality products such as DALMOR, 4-Diamanten, CAMPINO, FARINA, HENRY, Steirische Kürbiskerne, Steirisches Kürbiskernöl and YOUR CHOICE.

FrucomFruitimport GmbH, Hamburg

FrucomFruitimportGmbH is a fruit trading agency headquartered in Hamburg.

It generates revenues through the importing of fruit, principally from Chile and other South American countries. Its main products are grapes, apples and plums, and its customers are predominantly in the food retail industry in Germany

Garant-Tiernahrung Gesellschaft mbH., Pöchlarn, Austria

Garant trades in pet food and offers a range of products to cover all the requirements of livestock farming.

Raiffeisen-AgroMagyarországKft., Székesfehérvár, Hungary

In Hungary, the BayWa Group is represented in agricultural trade through Raiffeisen-AgroMagyarországKft. The company's business activities focus primarily on trading in agricultural produce.

Raiffeisen Agrod.o.o., Belgrade, Serbia

Raiffeisen Agro is in the business of selling agricultural produce and trading in agricultural equipment and resources.

Raiffeisen-Kraftfutterwerke Süd GmbH, Würzburg

As one of the largest compound feed producers, RKW Süd sells compound and special feedstuff for all farm animals. Horses and small animals are also catered for through an additional range of products sourced externally.

Raiffeisen-Lagerhaus GmbH, Bruck an der Leitha, Austria

RLG GmbH operates through its head office in Bruck an der Leitha and its other locations in Lower Austria in the business units of Agriculture, Agricultural Equipment, Building Materials and DIY & Garden Centres. As a retailer, it focuses mainly on the consumer business.

RWA Raiffeisen Ware Austria Aktiengesellschaft, Vienna, Austria

RWA is the wholesaler and services company of Lagerhaus (warehousing) cooperatives in Austria. As part of the Agriculture Segment, RWA operates in the sale of agricultural produce and trades in agricultural equipment and resources.

RWA Slovakia spol. s r.o., Bratislava, Slovakia

The Group is represented in Slovakia through RWA SLOVAKIA. RWA SLOVAKIA has secured a firm foothold in the agri-business through trading in grain, agricultural produce and operating resources.

Sempolspol. s r.o., Trnava, Slowakei

Sempol gehört seit 2006 zum Konzern und produziert und vertreibt Saatgut. Sie ergänzt die Aktivitäten der bereits auf dem slowakischen Markt agierenden RWA SLOVAKIA.

„UNSER LAGERHAUS“ WARENHANDELSGESELLSCHAFT m.b.H., Klagenfurt, Au

“Unser Lagerhaus“ Warenhandelsgesellschaft GmbH has 53 outlets in Carinthia and Tyrol and ranks as one of most important trading, production and services companies in the core businesses of Agriculture, Building Materials and Energy. As part of the Agriculture Segment, the company operates in the sale of agricultural produce and trades in agricultural equipment and resources.

Raiffeisen Waren GmbH Nürnberger Land

Raiffeisen Waren GmbH Nürnberger Land supplements BayWa's portfolio in the region of Franconia through its range of agricultural operating resources, feedstuff and grain trading. Its offering is rounded off by its affiliated DIY and garden centres.

Building Materials Business Unit

BayWa Vorarlberg Handels GmbH, Lauterach, Austria

BayWa Vorarlberg rounds off the Group's Austrian trading activities in the region. Its sales territory covers the western part of Austria. As part of the Agriculture Segment, the company operates in the sale of agricultural produce and trades in agricultural equipment and resources.

RWA Raiffeisen Ware Austria Aktiengesellschaft, Vienna, Austria

RWA is the wholesaler and services company of Lagerhaus (warehousing) cooperatives in Austria. The company provides a discerning range for these cooperatives: in the building materials business, RWA supplies the Austrian warehouses with building materials products.

Raiffeisen-Lagerhaus GmbH, Bruck an der Leitha, Austria

„UNSER LAGERHAUS“ WARENHANDELSGESELLSCHAFT m.b.H., Klagenfurt, Au

"Unser Lagerhaus" Warenhandelsgesellschaft GmbH in Carinthia and Tyrol ranks as one of most important trading, production and services companies in the core businesses of Agriculture, Building Materials and Energy. In the building materials business, the company sells products of the building materials trade.

Group companies of the DIY & Garden Centers Business Unit

AFS Franchise-Systeme GmbH, Vienna, Austria

The AFS provides support for the Austrian franchisees of the BayWa Group and RWA AG in the building materials and DIY and garden centre lines of business. The range of services also includes procurement, the product mix, marketing support and business advice for the Austrian franchise partners.

BayWa Handels-Systeme-Service GmbH, Munich

The BHSS provides support to all franchisees of the BayWa Group in Germany in the building materials and DIY and garden centre lines of business. Activities are focused in particular on the cooperation partners of the Raiffeisen trading cooperatives.

BayWa Vorarlberg Handels GmbH, Lauterach, Austria

BayWa Vorarlberg rounds off the Group's Austrian trading activities in the region. Its sales territory covers the western part of Austria. As part of the Agriculture Segment, the company operates in the sale of agricultural produce and trades in agricultural equipment and resources.

IFS S.r.l., Bolzano, Italy

Together with Landwirtschaftliche Hauptgenossenschaft Südtirol (L.H.G.), BayWa founded the jointly held IFS (Italian Franchise Systems) GmbH, a company headquartered in Bolzano. As the franchise system's head office, the IFS coordinates the franchise DIY and garden centre business in the north and central Italian markets.

RWA Raiffeisen Ware Austria Aktiengesellschaft, Vienna, Austria

RWA is the wholesaler and services company of Lagerhaus (warehousing) cooperatives in Austria. RWA provides a discerning range in its core business units agriculture, agricultural equipment, energy, building materials and garden centers.

ZES Zentrale Einkaufs-Service GmbH, Munich

As a service provider, ZES centralises the procurement activities, including procurement logistics in the retail trade, for the companies of the BayWa Group as well as for the franchise business.

Group companies of the Energy Business Unit

BayWa Tankstellen GmbH, Munich

BayWa Tankstellen GmbH manages the sale of diesel and Otto fuel, and supplementary shop business, through BayWa's filling station network in Germany.

BayWa Vorarlberg Handels GmbH, Lauterach, Austria

BayWa Vorarlberg rounds off the Group's Austrian trading activities in the region. Its sales territory covers the western part of Austria. As part of the Agriculture Segment, the company operates in the sale of agricultural produce and trades in agricultural equipment and resources.

BayWa Energie Dienstleistungs GmbH, Munich

BayWa Energie Dienstleistungs GmbH offers comprehensive and customised contracting solutions for the supply of energy to residential, municipal and commercial buildings as well as to the healthcare sector and industry at large.

Diermeier Energie GmbH, Straubing

The activities of Diermeier Energie GmbH are focused mainly on the sale of mineral oil products, especially heating oil, diesel, Otto fuel and lubricants, along with wood pellets and Ad Blue.

GENOL Gesellschaft m.b.H. & Co. KG, Vienna, Austria

Austrian GENOL is specialised in heating fuels, lubricants and motor fuels. Its portfolio also includes renewable energies.

Raiffeisen-AgroMagyarországKft., Székesfehérvár, Hungary

The BayWa Group is represented through Raiffeisen-AgroMagyarországKft in agricultural trade in Hungary. The company's business activities focus primarily on trading in agricultural produce.

TESSOL Kraftstoffe, Mineralöle und Tankanlagen GmbH, Stuttgart

TESSOL is the shareholder of the German AVIA Group and sells branded fuels to more than 130 AVIA filling stations in southern Germany, mainly in the region of Württemberg. Other activities include a regionally defined lubricants business and the sale of biofuel and biolubricants.

"UNSER LAGERHAUS" WARENHANDELSGESELLSCHAFT m.b.H., Klagenfurt, Austria

"Unser Lagerhaus" Warenhandelsgesellschaft GmbH in Carinthia and Tyrol ranks as one of most important trading, production and services companies in the core businesses of Agriculture, Building Materials and Energy. The company sells at products such as fuel, heating oil and wood pellets through its outlets and filling stations.

Group companies of the Renewable Energies Business Unit

BayWa r.e GmbH, Munich

BayWa r.e is a wholly owned subsidiary of the BayWa Group. The Group has concentrated all its activities in the field of renewable energies under BayWa r.e as a business unit and is positioning itself in this growth market. Through the subsidiaries of BayWa r.e, which operate throughout Europe in the areas of biogas and photovoltaic plants as well as wind farms, BayWa has established itself as a project developer and trader in the renewable energies sector.

Focused Energy Inc., Santa Fe, USA

As a premium distributor operating in the photovoltaic system integration business, Focused Energy Inc. supplies installers in the US, especially in the core markets of Arizona, California, Pennsylvania, New Mexico and Hawaii. The product range comprises high-quality photovoltaic panels, inverters and mounting systems. Focused Energy is a leading high-growth high-margin wholesaler based in the US in the field of photovoltaic plants for residential construction and for small to mid-size commercial plants.

MHH-Gruppe, Tübingen

As a system integrator for photovoltaic plants and systems, the MHH Group, which maintains sales offices in Tübingen in Germany and Toulouse in France, is specialised in the field of solar technology. The services of the MHH Group comprise consultancy, financial planning, plant design and the construction of photovoltaic plants. Furthermore, as a trading company the Group has a product portfolio which includes modules from selected manufacturers, inverters, assemblies, off-grid systems, integrated roof systems and the company's own mounting systems and accessories.

r.e Bioenergie - Group, Regensburg

r.e Bioenergie GmbH is specialised in the field of project development, financing and the technical and commercial operation of biogas plants. Services range from plant design (development, size and comparative calculations), realisation (approval procedure, checking of grid capacity and building site preparation), financing (consulting on biogas plant funds), through to servicing (operation and raw materials management) of biogas plants. In addition, r.e Bioenergie GmbH operates a large rooftop plant in the harbour of Barcelona.

r.e Biomethan GmbH, Regensburg

r.e Biomethan GmbH is a trading platform for biomethane. The company focuses on trading, consultancy services and certification in the international biomethane market. r.e Biomethan GmbH combines biomethane volumes on its independent trading platform to make them available to end consumers by volume and quality.

RENERCO Renewable Energy Concepts AG, Munich

The sub-group RENERCO RenewableEnergyConcepts AG with its subsidiaries is specialised in the development of projects and of wind farms and solar parks. In addition, the company operates its own wind farms and solar parks, along with hydroelectric power plants for the production of electricity.

Schradenbiogas GmbH & Co. KG, Gröden

Schradenbiogas GmbH & Co. KG focuses on operating biogas plants. It produces raw gas and electricity from organic waste in its locations in Gröden, Alteno, Groß Mühlingen and Geislingen.

Other Group companies

Ybbstaler Fruit Austria, Kröllendorf, Austria

Ybbstaler is an international producer and seller of fruit juice concentrates and beverage compounds. With its processing plants in Austria, Hungary, Poland and Romania, Ybbstaler ranks among the world's ten largest companies in this sector.

Exhibit 5:

BayWa AG's Business Model

(Source: Annual Report, 2011)