

# The Perception of Changes in a Producing Co-operative due to the Forming of a Strategic Alliance: The Case of Swine Raisers Co-operative from Encantado- RS and Tetra Pak

## Research Paper

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## The Perception of Changes in a Producing Co-operative due to the Forming of a Strategic Alliance: The Case of Swine Raisers Co-operative from Encantado- RS and Tetra Pak

This paper analyzes the strategic alliance between Swine Raisers Co-operative from Encantado- RS (Cosuel) and Tetra Pak (the processing unit of sterilized box milk (Longa Vida Milk)). As academic interesting topics, the following issues were studied: the environment before, during and after the alliance, taking as theoretical base the work of Yoshino and Rangan (1996); the perception of the managers and associates regarding the changes which occurred in the co-operative taking as theoretical base the works of Mintsberg, Ahlstrand & Lampel (2000) and, additionally, a double complexity model was applied, taking as theoretical base the works of Pedrozo (1995). Also was explored the cultural change which took place in the co-operative as a whole (rural property, industry and the final consumer), and made it possible for Cosuel to develop competitive actions with limited financial aid and actions.

Key Words: Strategic Alliances, Co-Operatives, Double Complexity Model

## The Perception of Changes in a Producing Co-operative due to the Forming of a Strategic Alliance: The Case of Swine Raisers Co-operative from Encantado- RS and Tetra Pak

The decade of 1990 was marked by many internal and external environmental changes in Brazil. To cope with these changes, agribusiness and many other sectors in Brazilian economy went through a process of deep transformation and many companies had to turn to mergers, acquisitions, and secessions in order to survive, while others, continued independent and remained on the market, investing and growing. The Swine raisers co-operative from Encantado LTDA (Cosuel) fit into this last category.

Cosuel had an elevated liability due to the economic crises of the 80s and its incorporation was being negotiated with Chapeco Alimentos S/A, in 1989 when a new group of administrators took over which put into action a “Restructuring Program” to salvage the company. Cosuel was saved and became even more competitive due to this program, which is still in action. Its participation in the internal market grew due to the bettering of its commercial structure and it began its external participation with the exporting of frozen pig special cuts (pieces) which took place by the swine unit.

In the milk production chain there were great transformations that started in 1990, with the end of state control over the producers and consumers prices and with commercial opening which allowed the investments in the milk sector to become much more appealing.

One of the company’s strategies in 1997 was its alliance with a company that produces boxes for the packaging of milk and juices, Tetra Pak LTDA which, until then, worked only with companies Parmalat and Elege in the state of Rio Grande do Sul. The idea emerged due to a necessity in the market, which demanded a product with new characteristics. The product that Cosuel produced until then had a weak acceptance by the market, as it was a product of no aggregated value and often bargained, causing a negative profit. Considering the volume of Cosuel’s production (94,000 liters milk/day), wasn’t enough for Tetra Pak’s bottling machine (120,000 liters milk/day), Cosuel looked for new partners in order to complete the quota. These partners were the Cooperativa Getulio Vargas and the Cooperative de Santa Clara, forming a strategic alliances in which all parties were strengthened. This became Cosuel’s main strategy during the period of 1997-2000 having a significant impact on its whole milk production chain.

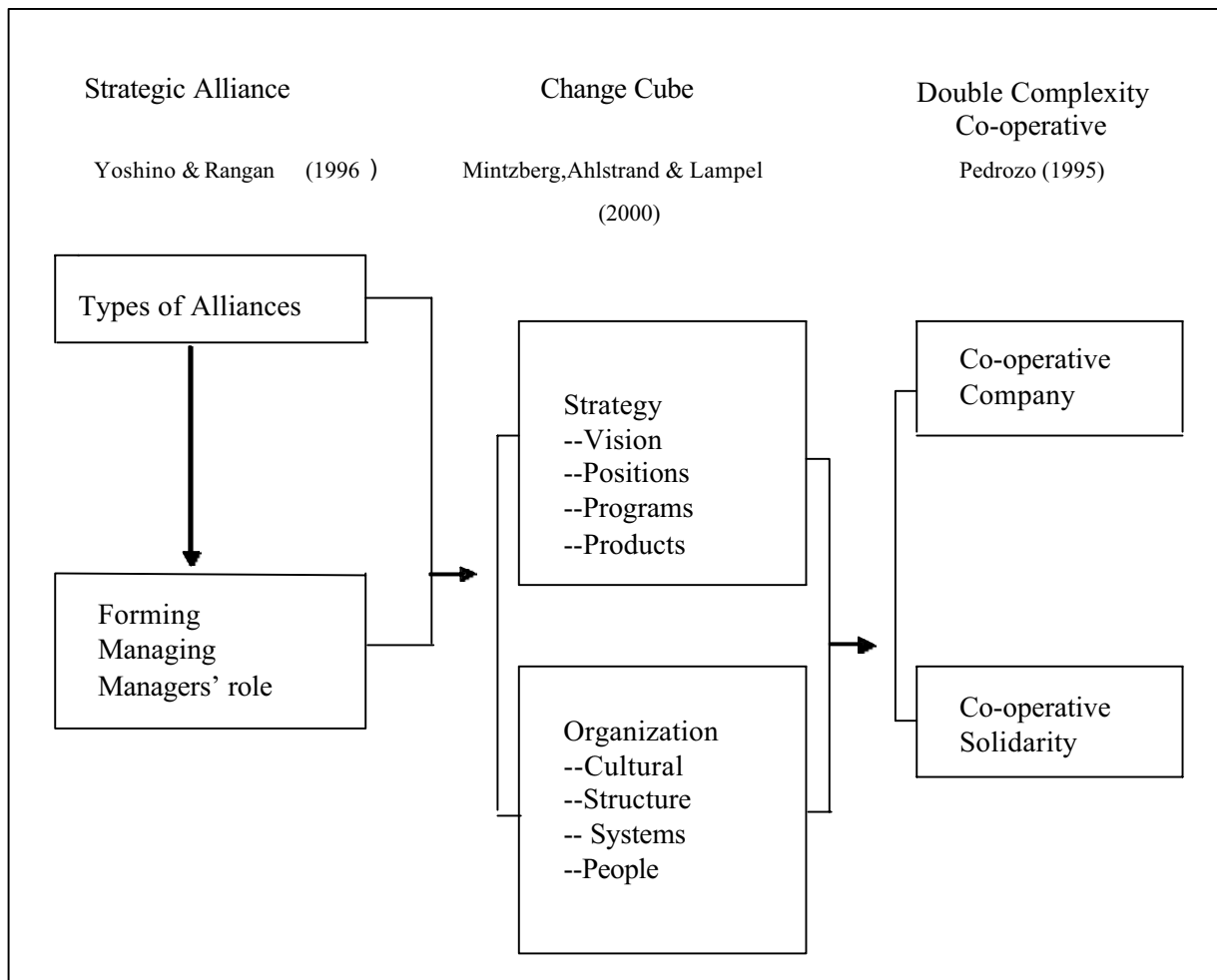
### Objectives

The main objective of the research was to analyze the strategic alliance with Tetra Pak LTDA and the main process used by Cosuel in its restructuring during the period or

1997—2000. This objective was divided into the following specific objectives: The characteristics of the external environment which caused the co-operative's restructuring, identifying the main methods of the restructuring program, including the Cosuel / Tetra PAK alliance; description of the forming process of this strategic alliance; verifying the evolution of the implementation of the method and, verifying the manager and associates perception in regards to the alliance.

## Theoretic Model

Figure 1 symbolizes the theoretic framework of the present study, which oriented the analysis of the Cosuel case. It was divided into three parts: Strategic Alliance (sub item 6-6.4) Change Cube (sub item 6.5) and Double Complexity Co-operative (sub item 6.6)



### **Figure 1: Theoretic model of analysis in the Cosuel case**

Source: Authors construction

## Methodological Procedures

This work is characterized as a case study. The case analyzed was the strategic alliance between Cosuel and Tetra Pak LTDA, where a combination of information describes a specific process, its internal relations and cultural attachments, which in turn, emerged from multiple sources of evidence (Yin, 1994). Multiple theoretic propositions guided the collection and analysis of the information. It has an exploratory nature and is founded on information gathered primarily from “in depth” interviews where a basic itinerary of open questions was used (Body et al., 1989).

The focus of analysis was the Strategic Unit of Dairy Business belonging to Cosuel. The participants in the research were: The dairy unit manager, development manager and financial manager of Cosuel, the manager of Tetra Pak LTDA in Rio Grande do Sul, five associates which held political positions inside the co-operative when the alliance with Tetra Pak was established and, fifteen associates which were milk producers from the milk region chosen at random. The secondary information was gathered by document analysis of reports, newspapers, comparisons and etc. of Cosuel, and theoretical studies on strategies and co-operatives. Content analysis technique was used in the treating of the information gathered in the interviews.

## The Cosuel / Tetra PAK Alliance

The Cosuel co-operative began its activities in 1965 with a small industrial unit (5,000 liters of milk per day). It operated in a region primarily colonized by Germans and Italians characterized by small family units of production, which saw mainly to their own needs. This was where swine raising began and became the main source of incomes.

The selling of the swine production was done at one of the cold storage plants in the region. The price paid was decided by the buyer, often times, being below the cost of production. This caused discontentment amongst the producers, which felt they were being exploited by the industry. It was then decided to begin a co-operation in order to assure a better price for their products. During the period from 1957-1967, with the establishment of the slaughter house and cold storage plant the co-operative began to receive, industrialize and commercialize other products such as soy, milk and maté. In the 70 decade the main strategy adopted by Cosuel consisted of the amplification of the geographical area for the receiving of production and the amplification of the dairy division. In 1976 there was an amplification of the industry caused by the increase in the milk received. In 1977, a new dairy industry was completed and inaugurated, whose objective was the commercializing of pasteurized milk, from which there was immediate

refund. It was during this time that Cosuel associated with CCGL Cooperativa Central Gaúcha de Leite Ltda (Central Gaucho Milk Co-operative).

In this association agreement it was established that CCGL commercialize all of Cosuel's milk. Initially Cosuel was required to participate with a quota of 10,000 liters of bagged milk per day. The association with CCGL did not consolidate however as Cosuel did not complete the quotas, nor accept the condition of turning its dairy industry into a post for simply the receiving of milk, as was requested by CCGL.

In 1978 new actions took place for the modernization of the industrial section at Cosuel, with the purchase of new equipment to help in the increase of milk delivery by the cooperators caused by a development program through which genetic materials were imported from Uruguay (230 pregnant heifers). The results of these milk production programs caused Cosuel to again invest in the dairy industry in 1979 (receiving milk, isolated thermo tanks for the storing of the milk, machines for the bagging of the milk, centrifuge, and a new generator to eliminate the electricity shortages).

In the 80 decade the Cosuel strategy was characterized by stopping its diversification of activities and amplifying its processing capacity and industrializing through its modernization of its industrial section. In this decade Cosuel prioritized its milk and swine production and industrialization (30.61% of its receipt), which presented the best competing conditions. With the modifications complete the industry then had the capacity to receive 80,000 liters of milk per day, and placed products like cheese, butter, sweet made from milk (doce de leite) and pasteurized milk "in natura". This called for the installation of two milk cooling plants allowing a larger number of associates to deliver their productions.

In 1984 Cosuel presented dairy products with the name DALIA as a product of great acceptance in the market of Porto Alegre (the capital city of the state), and called for new investments in the structuring of the cold industry, seeing the products were perfectly conserved and intensifying the commercializing of the pasteurized milk.

In 1985 the process of investing in the cold industry, which had begun in 1984, ended. And Cosuel searched for new markets to commercialize pasteurized milk, leaving the production of cheese up to the demand called for at the sale posts.

In the years 1986 and 1987 the dairy production was greatly affected by the policy of stabilizing prices, but it recuperated in the second half of 1988 regardless of the high inflation rates. In 1989 the results presented by the industry were also good, although there was a reduction of 5.79% in the receiving of raw material milk.

In the 90 decade Cosuel began a modernization process with a change in its administrative structure, establishing hired directors for the areas of production, industrial, commercial and financial administration. The former model (production,

industrial, commercial, financial and administration) was substituted by managers of the business being coordinated by the Administrative Counsel under the General Assembly resulting in the activities being better defined. These changes allowed Cosuel to regain growth, conquer new national and international markets, modernize its industry and become administratively and operationally professional.

The greatest transformation occurred in the Dairy Business Unit, which for need in the market, had to quickly adapt to a new reality.

The average production by the producer changed from 24.02 liters (1992) to 27.23 liters (1993) and 28.24 liters (1994) showing quick results from the development of cattle raising, the milk production programs. Cosuel also increased its milk received by 5%, and achieved a restructuring in it commercializing seeking to raise the market for bagged milk. With all of this it searched for new markets, which allowed for the increase of 30% in the sales of pasteurized milk.

In 1995 the industry presented a growth of 29% in the receiving of milk, this increase along with the decrease of liquid milk consumption required that Cosuel deliver daily part of the milk collected to PARMALAT. This situation of becoming a supplier to third parties occurred not for the lack of capacity to receive and industrialize but because the product that the company could produce was cheese, which at threat moment was in the negative margin. This was a very difficult year for the dairy sector, because all of its developing productions fell on an industry that had nowhere to put the product.

Thus the increase in production made it necessary to expand its industrial process and the pasteurized milk began to gradually but constantly lose its place (3655 thousand liters in 1990 to 2000 thousand liters in 1999) to sterilized box milk (leite longa vida) from 184 thousand in 1990 to 3500 thousand liters in 1999.

## Forming, managing and the impacts of a Strategic Alliance

According to Fonseca & Morais (2000: 8) the prices of milk and products made from milk have fallen since 1980 (52% of fall for cheese). This is why Cosuel formed what Cabral (1999: 133) names as “joint venture” establishing a sterilized box milk factory in Rio Grande do Sul. Initially it was thought to involve four co-operatives and there were difficulties in the choice of location for the headquarters remembering what Pedrozo (1995) called “double complexity co-operative”. Cosuel’s Administrative Counsel did not accept this establishment as it would have to divide its political power with the other co-operatives.

Tetra Pak was concerned with the concentration of its sales at only two buyers in Rio Grande do Sul (CCGL and PARMALAT), that’s why it suggested in 1996 a strategic alliance (Yoshino and Rangan, 1996: 5), selling it equipment to box and sterilize the milk

(leite longa vida) (120,000 liters/day) with no financial responsibility and to be paid in thirty days to six months

The strategic alliance between Tetra Pak, Cosuel and its allies (Cooperativa Santa Clara and Cootrigo) represents a “pro-competitive” alliance (Yoshino & Rangan 1996: 20) because it is a relation between business branches, in a vertical chain of values between the fabricator and his distributors, where all partners do not compete but help each other mutually to produce the same product. Also known as a strategic alliance (Yoshino & Rangan, 1996: 20) for being a relation between companies in the same exact line of business and direct competitors in the same consumer market (sterilized box milk), only differing by its brand.

According to Yoshino & Rangan (1996: 93) the forming of an alliance must follow a “path” and the following steps:

A - Think over the Business: The triangulation of milk in Mercosul caused the Brazilian importing of this product which was inexistent (1990) to become 140 million liters (1998) and Cosuel dedicated itself to the production of sterilized box milk.

B - Modeling the Alliance: Cosuel allied itself with co-operatives Santa Clara and Cootrigo to form the processing capacity of the machine through the service of packaging milk.

C - The Structure of the Alliance: The new factory began to work in 10/1997 benefiting Cosuel with Tetra Pak technology. The manager of Cosuel’s dairy business was designated as the one responsible for the alliance, and took advantage of all Tetra Pak’s knowledge in implementing changes in the production chain. Cosuel then began to relate to all the other great producers of sterilized box milk in the country. It had access to worldwide knowledge. Tetra Pak helped to develop tools for internal, market, marketing, institutional propaganda control of finances and processes of its business units.

D - Evaluating the Alliance: Cosuel bought a second packaging machine increasing its milk production capacity to 240,000 liters/day and was able to pay all the financings relative to this industry with its service as co-operative allies. Its operational results went from R\$ 215 thousand (1996) to R\$ 4.3 million (2000). Between 1997 and 2000 the milk business unit was the most profitable many times financing other activities in other business units. During this time Cosuel increased its milk production and placed its brand in sophisticated markets (states of: Sao Paulo, Rio de Janeiro, Parana, and Santa Catarina). Its milk receiving went from 34.7 million liters (1996) to 42.3 million liters (2000).

The allied co-operatives didn’t invest in immobilizations. The use of carton (box) packages went from 470 million (1988) in Brazil to 553 million (1999) in Rio Grande do Sul according to Revillion (2000: 66), bringing good results to Tetra Pak.



However, as mentioned by Yoshino & Rangan (1996: 133) the managing of an alliance requires managers with a clear vision and objective for the strategy regarding:

A - Nature: the alliance presented a new business alternative to Cosuel, motivating its cooperators to invest in a product with a guaranteed profit and access to worldwide technology.

B - Essential abilities: the production of high value milk gathered and of great acceptance in the market transmitted security to the cooperators and employees of Cosuel so that they improved their qualifications

C - Mind set: the new technology required great mechanical, electric, electrical and technological knowledge in food, which required the adoption of internal controls developed by Tetra Pak. The technical personnel were motivated to develop the quality of the product and began to command the level of payment from the producer.

D - Resources: Tetra Pak having sold equipment and packages to Cosuel with the pay day delayed and with out financial responsibility helped with the payment of the taxes of the above. Seeing that calling for joint capital of the associates would have been difficult as they found themselves in an unfavorable financial situation.

E - All functional coordination: Cosuel administrated this strategic alliance not only with Tetra Pak but also with so-operative allies (Santa Clara and Cootrigo). There was a win-win relationship, and Cosuel took responsibility for all losses in the production process. This caused satisfaction amongst the allies and reduced the possible wearing down of the alliance.

F - The alliance's network: Tetra Pak helped Cosuel to visit new industries, discuss new methods of production, and put all of its technology at its disposition. To Yoshino & Rangan (1996, 157) the success of a strategic alliance depends a lot on the person designed for the MANAGER'S ROLE in the alliance and must adhere to the following:

A - Trust: the atmosphere was one of trust because the partners considered that Cosuel had always been transparent and thus the reason Tetra Pak chose and used it on a level in Brazil.

B - Monitoring: the accompaniment of production was always observed by Tetra Pak. Whenever the company presented a defect in production or loss in competitiveness which required new equipment they financed them.

C - The flow of information: Cosuel keeps a weekly informative bulletin, which analyses the milk received from producers, identifying discrepancies and failures

occurring in the daily production process allowing that the whole functional and cooperative board view the factory's functioning.

D - Reevaluation: the reevaluation of the strategic alliance is always done with a group of managers from all business units at Cosuel, which keep in their plans a visit to European countries to keep up to date.

E - Internal affairs: the managers of dairy units and development were supported by their teams especially the alliance manager who received all the supported needed to complete the process.

F - Many producers and employees qualified showing that the strategic alliance manager other than technical competence also developed managerial competence and a knowledge of the market. He had the obligation of high administration of Cosuel which delegated him the authority of creating a strategy and allocating needed resources.

Under the perspective of the CUBE OF CHANGE two important change dimensions can be seen: the first has to do with strategy and the second with organization. These two dimensions always begin from the idea or abstract and arrive at the concrete and tangible.

As it will be analyzing the following Cosuel case:

A - Strategy: provoked a great change in Cosuel's relation with the market and the production of milk in terms of: vision (focusing on quality; because good quality milk means the machines are stopped less often for cleaning); positions (repositioning of the milk on the market); programs (caused a change in the handling of the animals, collecting and transporting of the raw material, quality control of the milk produced, genetic material and new equipment, payment of money grants for quality and quantity produced); products (sterilized box milk substituted the entire previous line of production);

B - Organization: the strategic alliance caused many modifications in Cosuel for example, its culture (revitalizing the spirit of the company in both its social and functional areas); structure (forcing the producer to produce a minimum of 20 liters milk/day with a standard of high quality, which caused the shutting down of cooperators which could not keep up with the process; systems (great reforming of the control systems); personnel ( the need to train personnel intensively, and substitute the non-qualified ones).

In the changes that occurred at Cosuel, the Cube of Change can be identified both in concept and concretely. The process for Double Complexity Co-operative (Pedrozo 1995) can be seen in Figure 1, in Cosuel's directors' opinions "co-operative company" and that of the cooperators "solidarity co-operative" giving it activities which are

trustworthy and profitable, and bettering its quality of life. The “co-operative company” has already attained a more comfortable economic and financial position.

## Final Considerations

The need for constant innovation requires financial resources, which many times are scarce in companies. From this, comes the need to develop the capacity of attempting and developing competitive faculties with imagination.

A Strategic Alliance with a technological company is a way to reach an increased capacity, without the need for financial resources. In the case here analyzed it is understood that the strategic alliance allowed Cosuel to stay on the changing market by changing its package of milk in bags for sterilized box milk (Leite Longa Vida).

The strategic alliance with Tetra Pak forced a change both in and out of the co-operative. This change process was described in this study with the Cube of Change, proposed by Miztberg, Ahlstrand & Lampel (2000). The bettering in the quality and quantity of production, and the bettering of the co-operative’s market position by having the low profit products eliminated was evident.

The co-operative’s culture went through a transformation, becoming more professional, searching for results, achieving goals, motivating employees and cooperators to keep updated.

The cooperators perception was also observed, while the producer saw the milk production as a profitable activity giving him the distribution of the remains resulting from this type of action.

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