

NEW PROCESSING FACILITY

Of the 52m gallons processed by Arrabawn, 4m gallons is sold as liquid milk. The remainder goes into casein, butter and skim milk powder. Over 95% is sold through the Irish Dairy Board.

At present there is much talk in the Irish industry of a possible Enterprise Ireland investment in dairy processing. It is likely to be a three way deal, with the co-ops and the Irish Dairy Board expected to help finance the investment.

Conor Ryan is open to possible options. "If we can get a better return for our farmers, we'll explore it, if it makes economic sense".

However, he sees the cost of redundancy and transport as major barriers to a "big bang solution". "There's not necessarily one miracle solution — the solution is more intricate than that."

Cheese is seen as the most likely product to replace butter and Arrabawn is interested. However, everyone across Europe sees cheese as the saviour and, while the market is growing, Conor Ryan is concerned that a new cheese plant could flood the market.

"Everybody is flooding out of butter production, but we wouldn't be totally despondent. Butter is a completely natural product with no preservatives. Recent sales drives in the UK by Anchor and Dairy Crest have shown that growth is possible after all."

FUTURE IN MILK

At the recent Arrabawn AGM, issues of the past and local politics consumed much of the time. Young farmers contacted Conor Ryan afterwards with a more straightforward question — is there a future in this business?

His answer? "The milk market is in the process of going from a protected market to an open one. Anyone investing in dairy farming has to deal with that fact and the realities of it. There will be a good living in it for efficient operators."

BUILDING KILCONNELL

As part of the Nenagh — Mid West merger, Arrabawn co-op committed to building a new liquid milk plant at Kilconnell in Co Galway. Observers at the time and since described it as a bad decision, given the large number of plants already operating in the small and shrinking branded liquid milk market. Conor Ryan provides an honest opinion.

"It would have made last year an awful lot easier if we hadn't built it.

"So while you could say it should never have been built, you have to remember that it was a political decision that cemented the merger and allowed other things to happen."

The first milk went through the plant in early 2005. Nenagh and Oranmore dairies were closed. However, major teething difficulties persisted until October. Losses were sustained but the plant is now operating smoothly and, more importantly, profitably.



Conor Ryan is a Business studies graduate from the University of Limerick. Prior to joining Arrabawn, he spent 20 years with the Kerry Group. Why move? "I suppose I enjoy a new challenge. I grew up 25 miles down the road in Cappawhite so I was familiar with a solid business run along co-op lines. There's was an opportunity to take it forward."

Throughput is currently 4m gallons with capacity for an extra 1m gallons. If the plant moved to a double shift, it could handle 10m gallons. Like in all areas of the business, Conor Ryan said that he is "open to working with people".

At Christmas, the co-op successfully merged their two liquid milk brands, Oranmore and Nenagh, into one brand, Arrabawn. This has greatly simplified processing and Conor Ryan used his previous experience from a similar rebranding exercise at Kerry to ensure that the change went smoothly and sales were not adversely affected.

The co-op does not do any major own-label business and faces constant pressure from Northern Ireland supplies. At retail level, brands continue to offer some protection.

In the near future, Arrabawn plan to launch a low fat yoghurt drink out of Kilconnell.

MILK QUOTA TRADING

Arrabawn has recently merged its two milk pools into one, thereby ending the anomaly whereby neighbouring farmers in the same co-op were receiving hugely different allocations of quota from

the restructuring and temporary leasing scheme. High allocations in the old Mid West region has allowed suppliers make rapid progress and their average quota is now higher than those in the old Nenagh region.

The co-op currently has 1,050 suppliers with an average quota of 220,000 litres (48,500 gallons).

MILK QUOTA

"I see milk quotas losing their value very quickly — I think they will be gone by 2008/2009," Conor Ryan said.

For farmers thinking of purchasing milk quota, Conor Ryan suggests they "do their figures on the basis of a milk price of 23-24 cent per litre". He has no desire for high milk quota prices in any new trading system. "The challenges facing farmers are big enough without an expensive quota price," he said.

RULE CHANGES

Conor Ryan was disappointed this year when proposed rule changes to the society failed to secure the required two-thirds majority by just one vote.

A considerable amount of money and three years of meetings had gone into the process that would, among other changes, have reduced the main board from 22 to 18 and the general committee from 63 to 52.

In contrast, a proposal at the recent AGM that the board be allowed select two outside directors was accepted. While no one has yet been chosen, Conor Ryan says there are obvious expertise gaps to be

filled, such as property and finance.

The co-op is also tidying up its share register, a task that former CEO Jimmy Murphy has led in his position of co-op Secretary. Conor Ryan added that Murphy "has been a huge help to me over the past year".

PAYMENT FOR SOLIDS

In an analysis of co-op milk payment systems produced by this paper's Jack Kennedy, Arrabawn is one of poorest to reward farmers for producing milk with high solids.

Conor Ryan said that the issue has been discussed at board level "and we know the direction we need to go".

However, he feels it is a change that will have to be made gradually. "We will need to identify the worst affected farmers and work with them," he said.

INDEPENDENT TESTING

Arrabawn's milk is tested in its own laboratory at Nenagh but Conor Ryan acknowledges that there is some demand for independent milk testing. However, he pointed out that butterfat testing is regulated by the Department of Agriculture and protein "probably will be in the near future". He added: "if suppliers have issues, they can contact us and we send split samples to Moorpark".

Regardless of where the milk is tested, the co-op needs to maintain a laboratory for quality control purposes so he sees no major savings arising from centralised milk testing.

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SSANGYONG
COMMANDS THE ROAD

Adapting Arrabawn to new commercial reality

Conor Ryan has just completed his first year as chief executive of Arrabawn co-op. **Pat O'Keeffe** met him in Nenagh

AS he led me up the stairs to his office at Arrabawn co-op in Nenagh, Conor Ryan paused and pointed out the window. "That's the piece of ground that saved us last year," he said, identifying just over an acre of adjacent land that the co-op sold for €2.1m.

The chief executive has just completed his first full year in office and it's been a tough one. Arrabawn reported a trading loss of €2m for 2005, compared to a profit of €1.6m a year earlier. If that wasn't bad enough, they found themselves at the bottom of the *Irish Farmers Journal*/KPMG milk price audit, paying Ireland's lowest manufacturing milk price.

Conor Ryan, a former executive with the Kerry Group, is determined to improve on that position, but he's also a realist.

"It's no secret that dairy trading is very tough at present. We're reviewing where to go and in what product categories. In the next three months we need to decide where to put milk over the next three to four years. The only certainty is that what worked in the past won't work in the future."

He told the recent AGM that "radical change" would be needed to curtail milk processing losses.

"We are very open to change. The harsh reality is that we won't make money on our core milk processing business for the foreseeable future."

For the past year, his focus has been on quenching fires. Thankfully he has made progress.

"For the past 12 months, our focus has been on getting our liquid plant up and running and reducing our cost base in butter production. Good progress has been made, but we've some more to do.

"Liquid milk had a disastrous 2005 and feed was difficult — both are going well so far this year," he said.

The AGM was also told that the co-op has the objective of paying a better milk price but it has already imposed cuts of 0.66c/l (3c/gallon) for April and a further 0.66c/l from May of this year.

"Our intention is not to be at the bottom of the milk league. Arrabawn shouldn't be," he said, "it has enough strings to its bow".

Developing those "strings" is a key focus now for Conor Ryan.

• The co-op is currently in the process of securing planning



"We are very open to change. The harsh reality is that we won't make money on our core milk processing business for the foreseeable future," - Conor Ryan, chief executive, Arrabawn co-op

permission for a retail park at their 12-acre Tyone mill site on the Thurles road. It is well located on the edge of the town and will be close to the entrance to the town off the planned Dublin-Limerick motorway.

• Conor Ryan plans to make his trading outlets "more relevant to modern rural consumers". He has 13 branches, of which seven to eight are in very good locations. Investment is planned to ensure each viable location has a strong garden, hardware and DIY offering.

• Arrabawn also has a good feed business, with sales of 100,000 tonnes likely this year. The co-op made a wise investment some years ago in the Dan O'Connor feed business. As well as a strong brand, the site on the edge of Limerick is now worth a multiple of the original purchase price. There is also a mill at the Tyone site in

Nenagh. Over time, the mill operations are likely to be centralised to one site.

• Given the co-op's tillage catchment, Arrabawn is "very keen" to get involved in renewable energy.

Conor Ryan admits that much of the Irish dairy industry wasn't run along commercial lines in the past. "There was a focus on the co-operative ethos but now we must have a very commercial focus."

It was an easy mistake to make, given that markets were essentially guaranteed and "there were no expectations".

For example, it's not too long ago that casein returned a premium of 32 cent per gallon. "Due to the exchange rate and export refunds, that's now down to just 2-3 cent per gallon," he said. Casein aid has dropped from €670/tonne

to €52/tonne. To offer some hope for the future, he cites the example of the Irish beef industry. They too were almost completely dependent on intervention and subsidies. He looks with admiration at how they have evolved into low cost operations with a large market share at retail level.

"The EU is determined to cut milk supply. Irish farmers have the land base and expertise to cope. Processing needs to come into line," he said.

MERGER BENEFITS

Arrabawn co-op was formed in 2001 as a result of the merger of Nenagh and Mid West co-ops. It's territory mainly covers counties Galway and Tipperary, but also includes parts of Offaly, Limerick, Roscommon, West-

meath and Clare. The merger brought benefits — two small dairies consolidated into one new plant; two butter plants into one; milk payments and quota management into one and streamlined administration.

To critics of the merger, Conor Ryan simply says: "What future would Nenagh or Mid West have had on their own?" He illustrated the point with the following fact; in 2001, Nenagh and Mid West had 272 staff and a combined wage bill of €8m.

Last year, staff numbers were down to 200, with the wage bill maintained at just over €8m. If they had stayed the way they were, the Partnership Agreement increases would have added €3m to Nenagh and Mid West's wage bill.

CO-OPERATION

Arrabawn co-operates with al-

most all of its neighbours. They collect milk from Kerry suppliers in north Tipperary. Kerry reciprocates the arrangement in Limerick.

At various times of the year, Arrabawn also handles milk from Dairygold, Glanbia, Tipperary, Lakeland and Kerry.

The Nenagh plant remained shut for the months of December and January last winter. Milk from the co-op's northern region went to Connacht Gold, while southern milk was processed by Tipperary co-op.

Recent years have seen some consolidation in butter making in Ireland, with Dairygold's moving to Glanbia Ballyraggett, for example.

Presumably there is scope for further rationalisation? "Change is going to be gradual and continuous. It has to happen — we can't lose €2m again this year," is Conor Ryan's response.