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Rabobank's Success in Uncertain Times

An Executive Interview with Frans van Bijsterveld¹

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Abstract

The end of 2008 ushered in a severe and sweeping economic change throughout the global economy. In an Executive Interview conducted during IAMA's 2009 World Forum and Symposium in Budapest, Hungary, Frans van Bijsterveld, Global Head of Food & Agribusiness Research at Rabobank explains why Rabobank is one of the few financial institutions that has not been heavily affected. Rabobank continues to remain successful in these uncertain times because of its careful selection of customers and sole focus on Food and Agribusiness (F&A) outside of the Netherlands, as F&A is typically far more resilient than other sectors.

Keywords: economic crisis, banking industry, food and agribusiness, Rabobank.

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Introduction

Frans van Bijsterveld joined Rabobank Nederland at the conclusion of his studies at Tilburg University in 1978. Mr. van Bijsterveld began his career in the Economic Research Department and quickly advanced. In 1992, he was appointed General Manager of Rabobank Belgium, and then later appointed Global Head Food and Agribusiness Research in 1996. In 2001, Mr. van Bijsterveld managed the Food & Agribusiness Portfolio in Europe in his role as Food and Agribusiness Business Manager, Europe. Today, he is Head Food and Agribusiness Europe and manages the Food and Agribusiness Wholesale Business.

Rabobank began to internationalize gradually in the 1970's but more rapidly in the 1980's. Mr. van Bijsterveld has been heavily involved in this internationalization. Rabobank has maintained its Food and Agriculture focus through all the cycles weathered by international economy. Today Rabobank's international's sole focus is on food and agriculture. Only in the Netherlands is Rabobank active in other sectors.

Rabobank Europe has recently undertaken a change in its overall approach to Europe. Rabobank has gone from a very local orientation, a country-by-country focus, to a global and regional focus. Instead of having each office focus solely on their geographic area, Rabobank instead focuses on key global and regional players and aims to satisfy their needs with available resources. Globally, Rabobank's key clients are those involved in grain and oilseed trade, large processed foods manufacturers, such as Nestle and Unilever, and large beverage companies. On the European scene, Rabobank has identified strategic clients who fit their customer profile. Each of the ten Rabobank offices work to become the key bank for strategic clients who are based in their geographic area.

To what extent has Rabobank been affected by the recent credit crisis? What are the qualities that Rabobank possess that have allowed it to continue being successful in such uncertain times?

van Bijsterveld: The credit crisis in itself has affected Rabobank through forcing the devaluation of certain assets, resulting in a loss of capital. However Rabobank has not been heavily affected and these losses could be easily absorbed. Rabobank, along with all other banks, was also affected by the liquidity crisis in 2008, which made it far more difficult to find funding on interbank markets. However, due largely to the strength of Rabobank's Dutch operations, Rabobank was able to remain profitable and maintain growth. The most serious problems are being encountered currently with the economic crisis. This crisis is affecting the markets where Rabobank is most active, predominantly the Dutch market.

Rabobank has continued to remain successful in these times because of its careful selection of customers and sole focus on Food and Agribusiness (F&A) outside of the Netherlands, as F&A is typically far more resilient than other sectors.

What changes do you see occurring in the next ten years in the food and agricultural industry? How is Rabobank positioning itself to take advantage of these opportunities?

van Bijsterveld: I do not see dramatic changes. Demand and supply factors are the structural drivers and these are not really changing. Processing capacity remains in the Americas, demand in Asia caused by a growing population and increased purchasing power remains, and trade flows will continue to flow from West to East. This will not change, although these trends will be temporarily affected by the economic cycle.

What is changing is risk. Price and volatility will increase so players in the F&A market need to look at their risk management policies in a much better and broader manner than they have done in the past. Rabobank will have to develop the right risk management products. Rabobank will not only have to offer traditional risk management products for things such as foreign exchange risk, but also offer products for the price risk in commodities and risk stemming from the unavailability of productive land.

How would you define Rabobank's current positioning in the banking marketplace?

van Bijsterveld: Rabobank is very strongly positioned in the banking marketplace, being the only privately held bank with a AAA credit rating. In today's tough economic environment, such recognition aids Rabobank greatly with its funding side of its business. This rating is primarily achieved due to Rabobank being a major Dutch financial institution with very stable balance sheet and a cooperative ownership structure. Approximately two-thirds of Rabobank's business is conducted in the Netherlands, with the other third from International business. Rabobank is aiming to gradually increase the International business to 40 – 50 percent.

On the lending side of its business, Rabobank is the only bank worldwide truly focused on Food and Agribusiness (F&A). This does not mean that Rabobank is without competitors. For example, there is much competition from the many local banks active in agriculture, the cooperative banks in Europe, the farm credit system in the US and Government related banks in emerging markets. The further the potential customer is up the value chain, the greater the level of competition.

What are the key changes or events over the past 31 years that have determined Rabobank's positioning?

van Bijsterveld: The first key change was the steep consolidation in the local cooperative bank environment in the Netherlands. The number of local cooperative banks decreased from 1178 in 1978 to only 153 today. This allowed the banks to professionalize, get bigger and attract better educated people. This allowed the cooperative group of banks that make up Rabobank to become a major force in the Dutch financial system. Today in the Netherlands, Rabobank is the largest in agriculture, the largest mortgage provider, the largest small-medium sized business provider and the largest in the savings markets.

This increase in size allowed the second key event that has determined the positioning of Rabobank; the internationalization of Rabobank through Rabobank International. Rabobank International began in the late 1970's, which was very late in comparison to other large banks. Originally Rabobank International focused on F&A, but always was active elsewhere in such industries as healthcare, telecom, and energy. The biggest change recently, which has partly been

brought on by capital restraints due to Rabobank's cooperative structure, has been the decision to focus solely on F&A and to leave all other industries to other financial institutions.

What is the food and agribusiness strategy that Rabobank is presently pursuing?

van Bijsterveld: Rabobank's overriding strategy is to stick solely to global F&A and to be active in the entire value chain. Rabobank achieves this through three separate businesses: the Wholesale Business, the Retail Business and the Rabo Development Business.

When Rabobank first internationalized, it was forced to focus on large food and agribusiness players and not the farmer. This was because Rabobank was aware, due to experience in the Netherlands, that to finance a farmer the bank needs to be very close. Without good networks in place such a relationship was infeasible. Rabobank International instead focused on the remainder of the value chain, and today is known as the Wholesale Business. In this business, Rabobank's strategy is to finance the large key consolidators and niche players, such as input suppliers, those organizations involved in the first line of processing such as slaughtering businesses, those involved in secondary food processing who produce dried and packaged food and finally food retail and food service.

Rabobank International is now in a position to meet the requirements of farmers in some parts of the World through its Retail Business. This business is about developing local networks to finance local farmers. Rabobank is very selective in which markets it operates in, as it prefers to partner with larger, more industrial farmers. As a result Rabobank International has retail operations in New Zealand, Australia, California and Brazil where strong local networks are in place. Rabobank International's strategy is to stay and develop these markets to the highest level possible before attempting to enter further markets.

The third business that Rabobank International has is the Rabo Development program, which is not commercial business. Instead Rabobank partners with a bank in a developing country by providing equity and expertise on their board. The partnering bank remains local but benefits from foreign support. Rabobank International presently partners with banks in farmer communities in Africa, China and Paraguay. Rabobank International benefits by expanding the initial objective of Rabobank, to serve the underserved, and by expanding its international F&A network.

What is the customer profile that Rabobank is targeting?

van Bijsterveld: Rabobank is very selective when choosing who it wants to partner with in the wholesale sector. The customer must be a large F&A player and the bank has to generate an adequate RAROC (Risk Adjusted Return on Capital). The customer must be looking for a long-term relationship. Rabobank is not interested in those who are looking for one cheap product and then walk away after two or three years. Rabobank are also interested in customers who want to use many of Rabobank's products, not just one. A long standing relationship is also very important so Rabobank can discuss Corporate Social Responsibility (CSR) issues with the customer. Rabobank does not preach to its customers but does require engagement with such issues as water scarcity, biodiversity and child labor.

Rabobank targets its customers in its Retail Business by being selective in the areas in which it has a network. It is for this reason that Rabobank's Retail Business is active in areas where farmers are very industrious and farms are large in size.

The characteristics of the country of the potential banking partner determine whether or not Rabo Development will be interested in getting involved with that foreign bank. Eligible countries are those which have developing economies, economic, political and social stability, are open for retail investment and are safe for Rabobank staff.

Why has Rabobank Europe changed from a country-by-country approach to a global and regional approach? Is this change proving to be effective?

van Bijsterveld: Europe provides a very good example highlighting the problems that were encountered with a country-by-country approach. Throughout the 1980's offices were set up in ten countries throughout Europe. Each office was given a capital base and instructed to go to the new country, be entrepreneurial while focusing on local F&A, and develop a profitable bank within three years. The problem with this approach was that after 15 years of development, Rabobank had ten offices investing in a wide range of agribusinesses with no pattern and very little focus on any particular type of customer. In addition the offices were much segmented and there was a silo mentality, blocking cross border business development. To summarize there were too many customers in too diverse sectors, many of whom did not live up to the key customer profile.

Prompted by capital constraints and the consolidation of Europe, a Pan European approach was implemented in 2008, and the entire F&A scene in Europe was re-evaluated. Seven core sectors were determined, and those key consolidators and niche players who Rabobank wanted to be their customers were identified. Depending on where these key players were located determined which office would attempt to get their business. The country was no longer the starting point, but instead the end result of the strategic analysis of the major forces in European F&A. As a result the relative size of offices is currently changing as offices upsize and downsize depending on the number of potential customers in their area. This approach has meant that some existing customers now fall outside the key customer profile characteristics. Rabobank works with these customers to help them grow their business or encourage them to put more business through Rabobank to make it a sensible relationship for Rabobank.

This change has enabled Rabobank to be far more effective with its constrained capital by serving only those that meet the key customer profile.

Who are Rabobank's current key customers?

van Bijsterveld: Rabobank's key customers differ between regions. In the America's the biggest F&A sectors are animal protein and grains and oilseeds. The top five players in the animal protein industry presently have banking relationships with Rabobank, including Smithfield's and Cargill. The largest grains and oilseeds players are ADM, Bunge, Cargill and Glencore all of which are currently key customers of Rabobank.

Rabobank Europe aims to finance the top three or five players outside the listed companies in each Pan European sector depending on the size of the market. Rabobank will also deal with the larger listed companies if they can do sensible business with them. In Europe the biggest sector is beverages. The largest player is InBev while Heineken and Carlsberg are also big players. Rabobank Europe has banking relationships with all of these businesses.

There are presently around 280 customers who live up to Rabobank's key customer definition in Europe and Rabobank banks with 160 of them.

What are the key capabilities and qualities that these customers demand from Rabobank?

van Bijsterveld: The customers of Rabobank demand a good partnership and value a long standing relationship. They also demand the right products at the right price at the right time, so Rabobank must offer the financial services that their customers could get from elsewhere. As a result Rabobank constantly develops new products. However, the financial services demanded by the largest multinational listed companies, such as financial logistics and cash pooling, have not been within the scope of Rabobank.

Being the World's only dedicated F&A bank also results in many customers expecting products that other banks do not offer. Sometimes these demands can be met, but other times they cannot. For example Rabobank offers risk management for soft commodities but is presently not prepared to run physical positions, but instead tries to link suppliers and buyers.

How does an organization the size of Rabobank measure its performance? What are the key drivers that enable success?

van Bijsterveld: In the wholesale business the performance of Rabobank is measured on a per customer basis. Important are profitability, the level of revenue and cross-sell opportunities.

Furthermore performance is assessed by considering whether CSR targets are being met. Rabobank aims to be an institution that is recognized for being socially responsible. As a result, Rabobank tries to ensure that its clients are living up to certain CSR principles.

Thus the key drivers enabling success is choosing appropriate clients who meet the key client criteria and ensure that they meet the financial and CSR benchmarks.

Conclusion

Rabobank is recognized as being the safest financial institution in the world. This is primarily due to the strength of Rabobank's Dutch roots and cooperative structure, along with Rabobank International's focus on F&A. Rabobank is committed to growing its international business in a sustainable manner through its wholesale and retail businesses. In addition the Rabo Development program highlights Rabobank's commitment to serving the underserved. The F&A industry is fortunate to have a dedicated F&A bank such as Rabobank at its service.