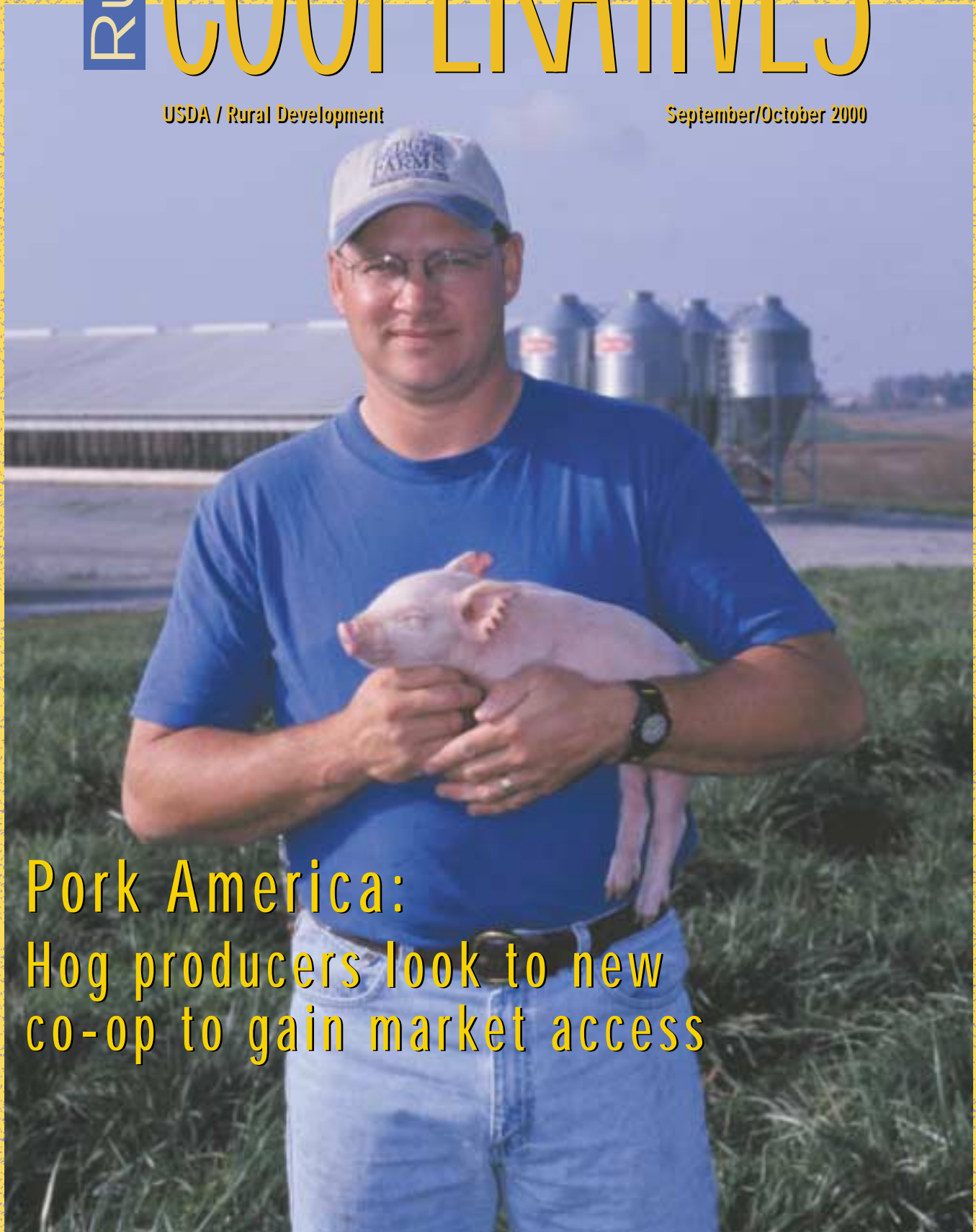


Rural COOPERATIVES

USDA / Rural Development

September/October 2000



Pork America:
Hog producers look to new
co-op to gain market access

Last train leaving?

Some say Pork America represents best, and possibly last, chance for hog farmers to gain significant market access

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Editor's note: The authors have served as USDA Rural Development's technical assistance team advising Pork America leaders on cooperative development issues.

In December 1998, an over-supply of market-ready hogs collided with the nation's limited slaughter capacity, causing pork prices to collapse to the lowest level in nearly 50 years. The average producer's portion of retail pork value plunged to 12 percent, down from 39 percent in 1997. The situation has left pork producers grappling for ways to secure a larger stake in the pork marketing chain. Their goal: to share in the returns from the other 88 percent of retail value of the \$36 billion pork industry. Many are looking to cooperatives — including the new Pork America cooperative — as the best way to ensure market access for independent producers and share in returns generated beyond the farmgate.

Crisis for pork producers

"Producers lost between \$4 billion and \$5 billion of equity in the last go-round," said Linden Olson, secretary-treasurer of Pork America, a producer-owned cooperative which seeks to help producers gain a stake in marketing their products. "The factors that brought about the price collapse of 1998 and 1999 have not changed," he continued. "In fact, those forces may have consolidated and strengthened. The possibilities

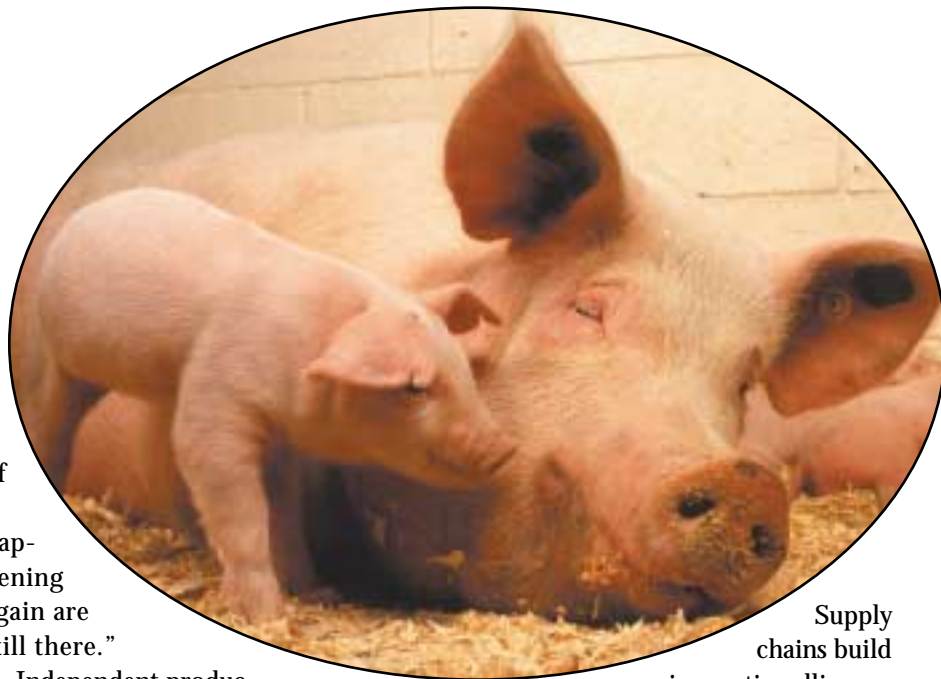
of it happening again are still there."

Independent producers suspect that the 1998-99 market crisis has accelerated the trend toward fully integrated production, as occurred in the U.S. chicken industry in the 1960s. Independent operations are often as technically sophisticated and efficient as integrated production units. In addition, they are predominantly family owned and operated. However, many of these producers question their ability to remain in the industry under these market conditions. These fears may not be unfounded.

The number of pork producers has fallen from nearly 3 million in 1950 to less than 100,000 in 1999. In 1997, 40 percent of hogs were farrowed and 44 percent were finished through some form of production contracting.

Estimates show that 74 percent of hogs were marketed by means other than spot markets in January 2000. This number rose from 59 percent in just two years. Independent production sold into spot markets is not the wave of the future.

Pork supply chains — vertically coordinated systems extending from the genetic base of a herd to retail sales — have emerged as the industry model.



Supply chains build innovative alliances

among vertical units in the market channel with the objective of delivering greater consistency, quality, specificity and reliability to meet or exceed the end user demands.

Despite the expansion of supply chains by investor-owned firms, opportunities still exist for independent pork producers to thrive and prosper. Growth of global markets offers tremendous potential for the U.S. pork industry. The Meat Export Federation estimates that worldwide pork trade will increase 36 percent during the next 10 years. The U.S. pork industry, with the world's lowest cost of production, is positioned to capture a significant part of this expansion.

Nonetheless, independent producers cannot simply manage input costs and expect to remain competitive in the supply chain model. Racing to the bottom of the long-run average cost curve is not the answer for these producers. The economic crisis presents an opportunity for independent producers to band together and form producer-owned supply chains that will increase their competitiveness.

Olson believes "control is not going

to come through the ability to negotiate individual contracts with packers. It's going to be joining with other producers and having leverage in the marketplace." Marvin Hayenga, Iowa State University economist, and others echo these producer concerns: "Access to markets for independent producers is limited, especially outside the Midwest. They face the decision of becoming linked with packers either individually or via cooperative processing or marketing initiatives, or of becoming residual suppliers inherently bearing more risk."

Producers and analysts both feel that independent pork producers must move up the value chain to capture a greater share of the consumer's pork dollar.

Potential for co-op formation

Increased pork consumption is partially the result of efforts by those independent producers who now are residual suppliers. Producer-funded programs, including the National Pork Producers Council's "other white meat" campaign, were designed to increase demand. Independent producers, however, have not been able to take advantage of the market opportunities these programs created.

Historically, livestock producers,

especially pork producers, have participated in cooperative marketing efforts to a lesser degree than other agricultural producers. Evolving industry structure and recent market conditions might change this. In the past 12 months, independent producers have officially incorporated several organi-

"The factors that brought about the price collapse of 1998 and 1999 have not changed."—Linden Olson

zations and many more are considering the formation of cooperatively owned pork marketing businesses.

The cooperative concept can directly address many of the challenges facing today's independent pork producers. "Valued-added cooperatives can provide producers with the tools required to capitalize on increasing world demand for U.S. pork," said Earl Dotson, vice president of research, environment and production research for the National Pork Producers Council (NPPC). He feels that "cooperatives can help restore

the profitability of independent producers and keep them in pork production into the 21st century."

Agricultural economists at Purdue University, including Don Paarlberg and Michael Boehlje, support the need for livestock marketing cooperatives. "Cooperation and pooled production and marketing appear to be key to offsetting the impacts of consolidation and integration in today's pork industry." They recognized, however, that "the livestock producing community has little experience and expertise in using these alternatives and will likely need public policies and assistance to get them functioning."

The primary objective of cooperative pork marketing is to increase market access for independent hog producers, and allow them to participate in additional levels of the marketing chain to increase their net returns. Despite increased interest in cooperative initiatives, the economic inefficiency of many separate, uncoordinated efforts may still leave independent producers at a disadvantage compared with larger investor-owned firms.

Task force studies potential

The NPPC's board of directors recognized this and decided to explore the potential of a national cooperative. Al Tank, NPPC chief executive officer, says, "Doing nothing is not an option. Producers cannot stand a repeat of this crisis..." In the spring of 1999, the NPPC formed a 15-member Cooperative Task Force to study the viability of a national cooperative. Jack Rundquist, a producer who was instrumental in the formation of the Hog Inc., a regional pork producer cooperative, headed this effort. The task force requested technical assistance from USDA Rural Development, which assigned two economists to work with them.

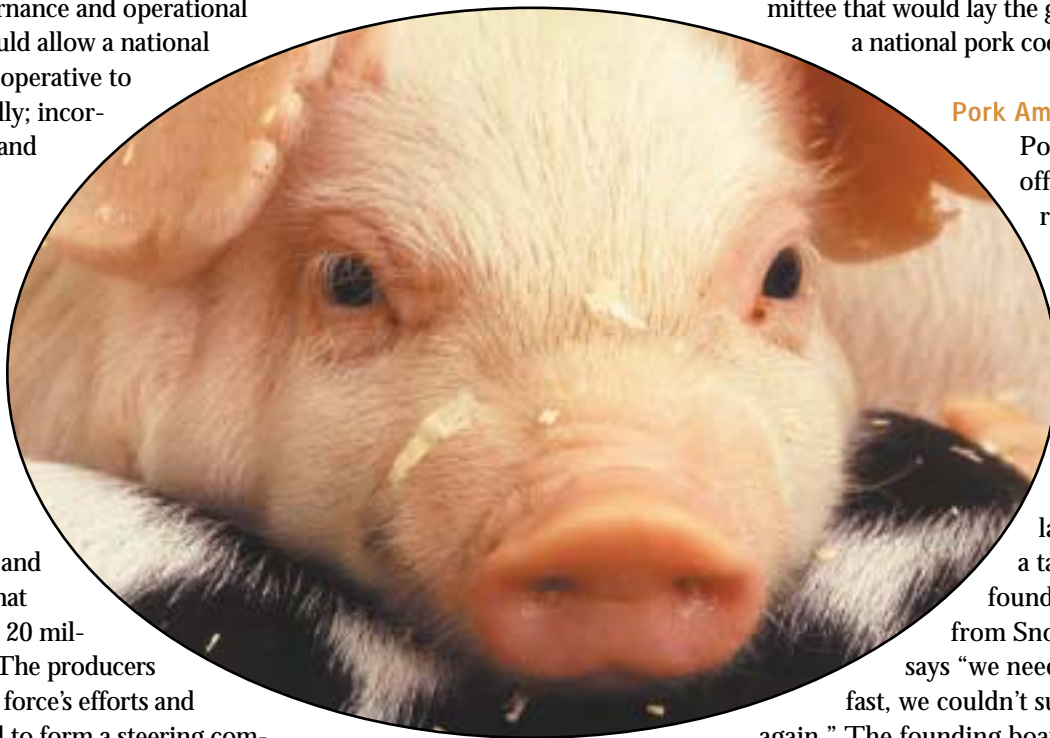
The closest available models on which to base a national cooperative were found in the U.S. dairy and the Danish pork industries, but both of these groups had achieved their national scope through more than 100 years of evolution. The NPPC staff and USDA advisors worked with the task force to



The number of pork producers in the United States has fallen from about 3 million in 1950 to fewer than 100,000 today. USDA Photos (pages 6, 7 & 8)

explore both governance and operational structures that would allow a national pork marketing cooperative to function successfully; incorporate local, state and regional groups as members; and be responsive to the rapidly restructuring pork industry.

Last November, the task force presented its findings to a gathering of more than 50 producers and producer groups that represented nearly 20 million market hogs. The producers supported the task force's efforts and unanimously voted to form a steering com-



mittee that would lay the groundwork for a national pork cooperative.

Pork America emerges

Pork America was officially incorporated less than a month later, on December 29, 1999, as a stock company under Minnesota's favorable cooperative law. John Adams, a task force and founding member from Snow Hill, N.C., says "we needed to move fast, we couldn't survive \$8 hogs again." The founding board consisted of

Small co-ops and marketing groups formed in wake of hog crisis

By Jeff Jobe, Director, Cooperative Services
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In the midst of the nation's largest hog producing region, not all producers are thinking big. Forced by the disastrously low prices of 1998, many pork producers began a desperate search for ways to retain more pork-generated dollars in their pockets. In Iowa and Nebraska, this has meant that many family farm pork producers are finding ways in which they can skip the middleman and sell pork directly to the consumers. Many are forming cooperatives or quasi-cooperative businesses. Here are some examples of what producers in Iowa and Nebraska are doing.

Eden Farms — Kelly and Nina Biensen are selling high-quality Berkshire pork produced in Iowa. Pork is sold directly to white-tablecloth restaurants in Des Moines, Chicago and Dallas. Eden Farms pork has been featured in articles in the *New York Post* and *Wall Street Journal*. Eden Farms uses a USDA-inspected plant to slaughter its hogs. The pork is then delivered to various processors for further processing. Eden Farms currently has more than 20 different products. The Biensens have developed a long list of fine restaurants in the Des Moines area serving Eden Farms pork.

Delaware County Meats — This group of family farm pork producers grew out of the Delaware County Economic Development Value-Added Agriculture Committee. Delaware County Meats has developed nine ready-to-eat products and two types of bratwurst. Recipes for their products were developed with the assistance of Terry Kerns of the Edgewood Locker. Product is currently being marketed through Nash Finch Co. food stores and at local food institutions.

Tabor Family Meats — Is a family-owned business that is selling top-quality pork directly to consumers. The hogs are raised in open lots, and are given no growth hormones or antibiotics in the finishing stages of production. Pork is sold either in individual packages or in 12-45 lb. bundles.

Audubon County Family Farms — Is a group of five small family farmers in Audubon County, Iowa, eager to share their heritage and production from their family farms. Pork is processed locally in a state-inspected locker facility and sold directly to consumers in individual packages or bundles. Audubon County Family Farmers also sells chicken, honey and beeswax candles.

Northstar Neighbors — Is a group of small farm producers,

eight members from six states with Jack Rundquist, of Butler, Ill., as chairman.

The board asked USDA to continue providing technical assistance and guidance during the cooperatives start-up operations.

Jim Lewis, Pork America's vice chairman and a hog producer from Welcome, Minn., described the cooperative as "a national umbrella organization that will facilitate and coordinate among local and regional groups, as well as individual producers. The cooperative will act as a resource center for activities related to production, delivery, and marketing of hogs." Lewis said that in this capacity, Pork America will address future research and development needed to assure that the cooperative provides quality products precisely targeted to the needs and wants of consumers and end users.

One of Pork America's first decisions was to conduct an in-depth strategic study. This market plan was partially financed through a cooperative agreement with USDA. Don Senechal, of Senechal, Jorgenson, Hale and Company (SJH), which was hired to conduct the study, said, "This has more upside potential than any other plan SJH has worked on."

The study identified two keys for success:

- *First, the organization must be market driven* — Pork America must develop innovative, dynamic models to meet market demand, and penetrate the market with solid deal making, through-the-chain alignment and carefully structured producer-to-consumer coordination;

- *Second, Pork America must be a significant national player* — this depends on the ability to control, participate in, drive and create pork-based food activities on a very significant scale, by participating in the top tier of the industry.

Nonetheless, the scope of the project may have slowed membership recruitment efforts. "We didn't quite realize how difficult it was going to be, to get everything done on a legal basis," Olson says. "A national cooperative had never been done like this before. Most of the other national cooperatives had come together as a result of mergers of regional cooperatives. We're starting something really new."

Pork America's initial activities included its Foundation Membership

located around the former town of Northstar, Neb. Northstar Neighbors sells farm-fresh meats directly to consumers or through farmers markets in Lincoln, Grand Island and Omaha. Products can also be shipped by mail. Newsletters are mailed to customers, asking them to place orders, and then designating a time and place to pick up their purchases.

Nebraska Farmers Choice — This cooperative is being formed to market and process members' pork for a greater profit. It has completed a feasibility study and is developing a business plan to begin operations.

Iowa Premium Pork Co. — This cooperative was formed as a result of a task force initiated in December 1998 by the Iowa Pork Producers Association. The task force was charged with determining whether independent Iowa pork producers could increase their profitability through cooperative marketing of their products. Iowa Premium's initial focus will be on developing joint ventures with existing packers or processors. In the first phase of operation, the cooperative will provide marketing services to its members, and will also begin gathering carcass information on members' hogs to assist the cooperative in targeting marketing opportunities. Iowa Premium Pork Co. currently has more than 1,400 members.

Family Quality Pork Processors — Was formed as a result of a task force formed in January 1999 by the Nebraska Pork

Producers Association to determine whether independent Nebraska pork producers could increase their profitability through cooperative marketing of their products. The group is studying the feasibility of building and operating a small pork processing plant for marketing under its own label. Family Quality Pork Processors . . . currently has 105 members.

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USDA Rural Development is often contacted by producer groups that indicate they want to sell 30,000 hogs per year directly to consumers. However, they have no idea as to the size of market they must have to sell 30,000 hogs.

USDA makes rough calculations to determine the number of consumers required to support such an enterprise, which tends to bring producer groups back to the reality that it may take years of hard work to develop the type of market they desire.

As a result of these many inquiries, USDA Rural Development and Iowa State University Extension's Value-Added office contracted with the Center for Industrial Research and Services (CIRAS) to develop a value-added pork manual. The manual is available to the public over the web at: iowaagopportunity.org. Call (515) 294-5008 if you need a hard copy. The manual provides producer groups with the tools necessary to determine if niche-marketing their own pork is feasible for them. It also outlines the steps necessary for producers to develop their own value-added business. ■