
New Generation Cooperatives: *Case Study*

Iowa Turkey Growers Cooperative and West Liberty Foods

by Mary Swalla Holmes and Daniel Curry



Financial support for this project came from the Value Project To Improve Farm Income and Rural Communities Through Specialty Farm Products and also the Rural Development Opportunities (RDO) Project identifying rural development opportunities in Illinois funded through the Rural Community Development Strategic Research Initiative entitled Illinois Farming Alternative and Rural Revitalization Methods (I-FARRM). These projects are funded by a grant from the Illinois Council for Food and Agricultural Research (C-FAR).

The New Generation Cooperatives: *Case Studies* are made possible with support from the Illinois Council on Food and Agricultural Research (C-FAR) and the Illinois Institute for Rural Affairs (IIRA).

Published by Illinois Institute for Rural Affairs
Stipes Hall 518
Western Illinois University
1 University Circle
Macomb, IL 61455-1390
iira@ccmail.wiu.edu
www.iira.org

Quoting from these materials for noncommercial purposes is permitted provided proper credit is given.

January 2001

Iowa Turkey Growers Cooperative and West Liberty Foods

by Mary Swalla Holmes and Daniel Curry

The last thing any Iowa turkey grower wanted to do in 1996 was invest in a packing plant. Not one of them was looking forward to sitting on the board of a multimillion dollar business, negotiating deals with top food companies. As the food chain shortened and the turkey industry integrated, however, choices became limited. When faced with one of the toughest decisions of their lives, the growers chose to remain independent by forming a cooperative. Forty-five Iowa turkey growers took the future into their hands, persevered through low prices and hard times, and came out on top. This is the story of the Iowa Turkey Growers Cooperative and West Liberty Foods.

Plant Closing

The bad news hit in April 1996. Through a series of mergers in the quickly consolidating poultry industry, the family-owned Louis Rich turkey processing plant in West Liberty, Iowa, had become a subsidiary of Kraft foods, owned by Philip Morris. Kraft reviewed its holdings and determined two poultry plants were operating at half of their capacity. To increase efficiency, one plant would shut down and one would gear up to full capacity. One plant was in South Carolina, the other in West Liberty, Iowa. The supply of turkeys in Iowa came from many individual producers with medium-size operations. In South Carolina, consolidation of the poultry industry was already well underway. Within miles of the plant, one or two contract growers could expand to meet the new demand. Even though the West Liberty processing plant had a stable, highly trained workforce that manufactured consistently high-quality products, the disperse supply was seen as a limiting factor to full-scale production. The decision was made to close the West Liberty plant in six months.

Decisions to Make

Iowa turkey growers were faced with the loss of their biggest and best market if the processing plant in West Liberty closed. In addition, a feed mill in Ellsworth, Iowa, used by many of the growers and owned by Kraft, would close, negatively affecting the input side of turkey production. The West Liberty plant processed about half of the seven million turkeys produced in Iowa in 1996. Iowa turkey producers grew birds under several different arrangements, some on contract, some independently. The plant closing would affect every producer, as the local supply would far outstrip the processing capacity of the other two poultry plants in Iowa.

One of the top growers, an influential agri-businessman from Story City, Iowa, sold half of the 200,000 turkeys he produced annually to the West Liberty plant and half to another Iowa plant, BilMar (Sara Lee Corporation). To this grower, the idea of buying the plant was not appealing. He had been down that road before. In 1975, he and several other growers had purchased a plant in Storm Lake, Iowa, when it was in danger of closing. Two years later, that plant closed and the producers involved lost millions of dollars. The pain of that failure was still evident in early discussions of what to do about the imminent closing of the West Liberty plant.

Table 1. Turkeys: Number Raised 1998-1999

<i>State</i>	<i>Number (1,000 head)</i>		
	<i>1998</i>	<i>1999</i>	<i>1999 as Percent of 1998</i>
North Carolina	50,000	48,500	97
Minnesota	44,500	43,500	98
Arkansas	28,000	27,000	96
Virginia	26,000	25,000	96
Missouri	22,000	22,000	100
California	19,000	18,000	95
Indiana	13,500	13,500	100
Pennsylvania	10,500	10,100	96
South Carolina	10,600	8,500	80
Iowa	7,000	7,500	107
Other States	54,104	51,286	95
U.S. Total	*285,204	274,886	96

**Estimate Source: Agricultural Statistics Board, NASS, USDA.*

Source: National Turkey Federation Web site: <www.eatturkey.com>.

This grower was fairly confident he could find markets for his birds even if the plant closed. He was a top producer, with many ties in the industry. On the other hand, philosophically, he was farming not only for himself, but also for the generation before and after him. He was concerned about the loss of this plant in terms of how it would shrink the Iowa turkey industry. He thought about the \$60 million per year the turkey producers were pumping into Iowa's sagging rural economy. As president of the National Turkey Federation, he considered the industry as a whole and the direction it was heading. Turning it over in his head many times, only one answer seemed to work. In May, when the producers filed papers of incorporation, he was with them. An opinion leader in the state and industry, his decision to join was crucial to the viability of forming the co-op.

Iowa Turkey Growers Cooperative

The growers examined every conceivable business structure and chose to form as a New Generation Value-Added Cooperative. Farmland, the largest farmer-owned open co-op in the United States, had met with the producers in April 1996. They had an interest in helping the turkey producers form a co-op to buy the packing plant and feed mill so that they could then lease the plant and market the products. Those talks eventually failed, but it had opened up discussion about forming a co-op. A new Iowa law had just gone into effect that allowed producers to form "New Generation," "Value-Added," or closed co-ops. These "501" co-ops allowed producers to own processing facilities and to add value to their farm-produced commodities. In a sense, it allows farmers to participate in vertical integration along with the rest

of the industry, securing profits beyond the farm gate. This type of co-op allows the number of investors to be limited, protecting their initial, often substantial investment. The producers knew very little about this structure, as only one other such co-op existed in Iowa, but saw that it offered a possible way to keep the turkey industry in Iowa.

Technical Assistance

Jeff Jobe, Cooperative Development Specialist for USDA, held informational meetings and discussed strategies with the producers. He talked to the group about the financial incentives available to businesses forming under the co-op structure. He provided examples of similar farmer-owned co-ops in Minnesota and North Dakota, where producers process their own durum wheat, sugar beets, corn, and other commodities. After studying existing New Generation Co-ops and exploring state and federal programs, the turkey growers determined that a co-op structure provided the best opportunity to obtain loans, grants, and loan guarantees.

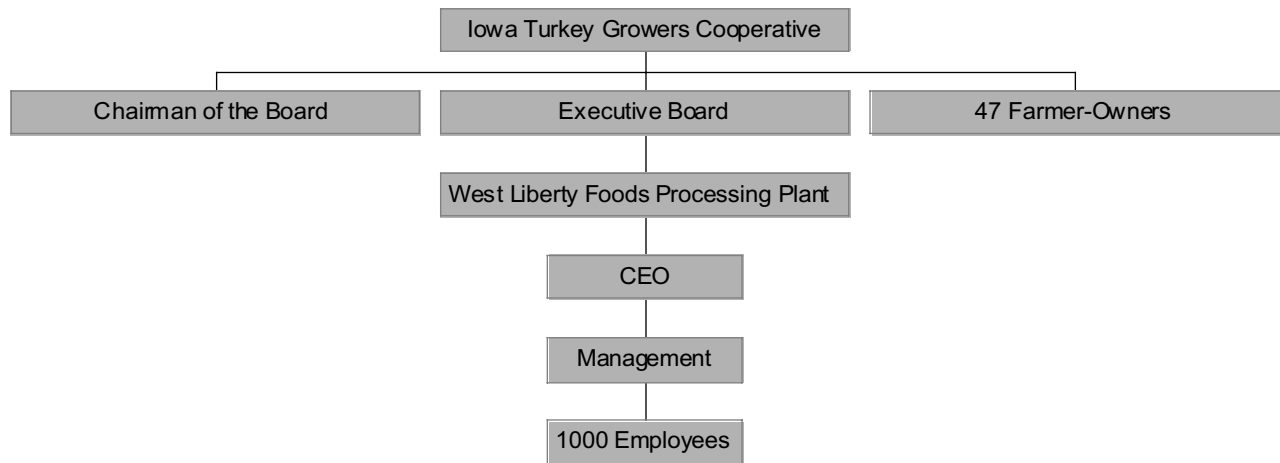
Time was a critical factor. Kraft had announced that the plant would close in December 1996, which didn't leave much time for discussion. As talks progressed, Farmland bowed out of the negotiations. Kraft/Oscar Mayer offered to contract 50 percent of the production for the first year and 25 percent for the second year. This offer went a long way in reducing the risk of investment.

The director of the Hamilton County economic development group (a former Sara Lee Corporation executive) provided important leadership during this period. He played a significant role in the complex negotiations between the producers, Farmland, and Kraft/Oscar Mayer. A market feasibility study by a Cedar Rapids, Iowa, consulting firm, showed that there was the possibility of making a profit as long as the commodity price for raw product remained around \$1.90/lb. Having a dedicated, stable, and trained workforce still in place was a definite plus, as was the plant's West Liberty central location near rail and interstate.

With strong leadership from the top producers, details on the co-op structure were discussed, incorporation papers were filed, and the Iowa Turkey Growers Cooperative board was formed. Public perception of the co-op's potential to succeed was enhanced by a significant level of positive press coverage, along with stories about the plight of the turkey growers. The group of producers maintained solid working relationships with the media and with public officials, a key ingredient in setting the stage for financial support from public agencies. A financial package was assembled in record time. Within three weeks, the package came together from state, federal, and private sources, along with cash investments by the producers.

The entire package included \$16.2 million in authorized capital, divided among more than 16 million shares held by 45 individuals representing 47 enterprises. Each share also gave the co-op members the right (and obligation) to deliver a certain number of birds to the plant. These "delivery right" agreements also signified to lenders and public agencies the depth of the producers' willingness to stand behind the plant once the co-op took ownership.

Figure 1. Organizational Chart



Financial Package

Anchored by \$2.4 million in cash equity put up by co-op members, Iowa’s Department of Economic Development (IDED) approved a \$900,000 grant and loan package through the state’s legislatively funded Value-Added Agricultural Products and Processes Financial Assistance Program (VAPPFAP). IDED also approved \$875,000 in forgivable loans through its Economic Set-Aside Program, using the city of West Liberty and Muscatine County as sponsors. To qualify for this program, the co-op agreed to pay 425 workers at the processing plant an average wage of \$9.66 per hour.

The Iowa Corn Promotion Board granted the co-op a \$50,000 low interest loan, Muscatine County loaned \$50,000, and the city of West Liberty loaned \$75,000. Additional dollars came from the Iowa Farm Bureau Federation, with a \$1.25 million loan, and a grant for \$15,000 came from the Iowa Turkey Federation. Norwest Agricultural Credit loaned \$8 million, and USDA’s Rural Development guaranteed 70 percent of an additional \$7 million from Norwest. Heavily invested and leveraged, the turkey growers understood that there was no turning back.

Management Team

The co-op knew that excellent and experienced management would be critical to the success of the venture. One of the producers put in a call to a trusted and respected veteran of the food processing industry, a manager of a turkey production and processing facility in California. They had served together a few years earlier on the National Turkey Federation board. The manager wasn’t looking for a new position, but he answered the call to come to Iowa to meet with members of the newly formed Iowa Turkey Growers Cooperative. He was impressed by the group and by what they had accomplished in a short period of time. His relationship to the producer, plus his family ties to the Midwest clinched the deal. By November, he was on board as president and chief operating officer, putting his management team into place. The arrival of a successful, respected CEO lent credibility to the fledgling co-op.

The co-op by-laws were written with continuity in mind, building stability into the board. The new CEO worked with the executive committee, four dedicated producers that would be involved in every detail of the planning for operations at the processing plant. He insisted that each member of the elected board of directors have a fax machine so that they could stay in constant contact. Communication was established as the cornerstone of the relationship between the CEO and the board, with faxes and weekly conference calls or meetings in addition to monthly board meetings. Despite rumblings in the industry that predicted oversupply and too much production capacity, the newly formed co-op was optimistic.

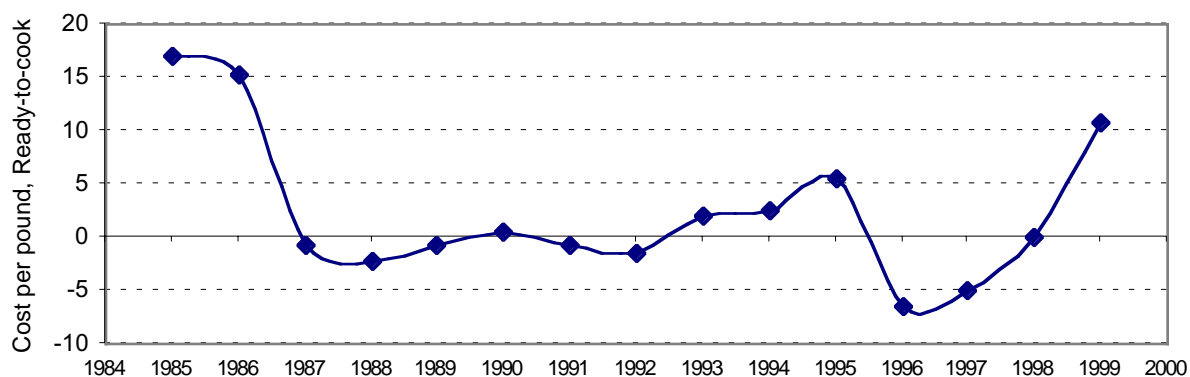
West Liberty Foods

The co-op took ownership of the plant on December 27, 1996, and the plant opened under the new name “West Liberty Foods” on January 13, 1997. The town of West Liberty breathed a sigh of relief, for the town had long depended on the processing plant for economic stability. The 250,000 square foot processing facility and large parking lot sits on the south edge of West Liberty’s downtown, and the community of 3,000 depends on the annual payroll of more than \$20 million in wages and benefits, and the millions of dollars collected in taxes. The CEO assembled an impressive management team, including two other well-known individuals in the turkey industry as Chief Financial Officer and Vice President of Sales and Marketing. A five-year strategy was formed, and the plant opened for business.

Market Downturn

Disaster struck just as the new management team assembled at West Liberty Foods. Commodity prices began to head downward. A market correction due to oversupply of turkeys sent prices tumbling throughout the winter and into spring. The producers’ co-op and management team watched helplessly as the prices fell. In the turkey industry, the CEO faced a hostile attitude at national meetings, as much of the industry believed it would have been better to shut the plant down. By May 1998, commodity prices were at historic lows of \$1.07/lb.

Figure 2. Estimated Net Returns for Whole Turkey at Wholesale



Source: National Turkey Federation, *Sourcebook*.

Even when prices were at their lowest, the co-op members held together, going back to their membership several times for infusions of cash. They renegotiated bank contracts, put together an exit strategy just in case, and waited for prices to come up. Rather than blame new management for their predicament, the members supported the plant management through words of encouragement. Many ideas on how to turn the business around were discussed. The theme between management and board members at this time was “We will strive to survive.”

The price change came just in time. In July 1998, the market turned upward and the demand improved. By then, the co-op was running very efficiently. The growers had examined their production methods and facilities and became as efficient as possible. They had trusted their CEO and management team through the downturn, understanding that market forces and their position in the market were to blame. By August they were coming out on the other side, and they were ready to carve out a niche in the new marketplace.

Industry Leader

West Liberty Foods is now an industry leader in value-added food production. While medium-sized in terms of capacity, the management strategy puts it on the cutting edge in the “New Economy.” In the New Economy, transnational corporations do not want to own real estate or take on the risks of managing a workforce. They prefer to contract with well-managed small processors that are flexible and efficient. West Liberty Foods has positioned their company in this niche.

The co-manufacturing strategy has paid off. West Liberty Foods currently co-manufactures for many of the easily recognizable meat and poultry labels, and they are no longer tied to commodity pricing structures. They have moved up the food chain to the highest value markets, where they can make best use of their strengths. In this market segment, building strong relationships with the buyers and maintaining the highest quality is more important than having the lowest price.

In addition to co-manufacturing for branded labels, West Liberty Foods also manufactures upper-end private labels for grocery chains and a line of deli meats for the restaurant trade. Another niche that is now coming into focus but was not originally predicted is processing products for food companies that were once considered competitors.

A recent expansion opens even more doors of opportunity via a big investment in food safety. The new addition totally separates the “raw” workforce from the “cooked” workforce. Each workforce has separate facilities, and individuals are not allowed to mingle, eliminating the spread of any contamination from the raw meat to the cooked products. It is a step towards the future, putting the West Liberty plant on the cutting edge of food safety.

The next step is developing an in-house label to brand high-value retail products. As high-end consumer markets continue to grow, opportunities abound for food processors with infrastructure to develop and manufacture innovative meat products. West Liberty Foods has the added advantage of a core supply of identity preserved birds and the ability to control their supply. They also purchase additional raw turkey, beef, pork, and chicken from producers in surrounding states.

Table 2. 1998 Per Capita Consumption in Pounds

Chicken	72.6
Beef	68.1
Pork	52.6
Turkey	18.1
Lamb and Mutton	1.0

Source: National Turkey Federation Web site: <www.eatturkey.com>.

Today, the 250,000 square foot West Liberty plant employs 1,200 people, with an average seniority of seven years, far higher than the industry average. West Liberty Foods has grown from \$60 million to \$130 million in sales in three years. Planned improvements include a new slicing and packaging area, new internal cold storage, and a \$500,000 planned management information system. The company is in the process of purchasing an additional plant in Sigourney, Iowa, which will employ an additional 200-250 people. West Liberty Foods was recognized in November 2000 for its contributions to value-added agriculture by the Iowa Area Development Group (IADG), an economic development agency formed by Iowa's rural electric co-ops and municipal electric utilities. IADG presents the Venture Award to recognize businesses that provide leadership, capital investment, and jobs for rural Iowa communities. The company was also a finalist for the 2000 Governor's Iowa Industry Awards.

West Liberty Foods Mission Statement

The corporate mission reflects the producer/owners' goals of being good corporate citizens along with achieving economic success:

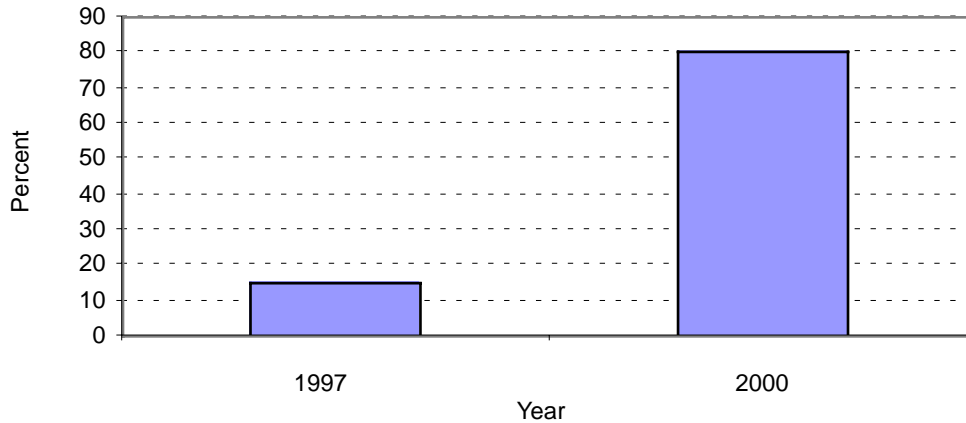
- To improve the economic conditions of our grower/owners through processes which add value to their basic product.
- To efficiently market products both domestically and internationally.
- To produce product which meets customer expectations for quality.
- To provide superior service in production and delivery of products.
- To operate under the highest ethical standards.
- To provide a safe, secure, and viable workplace for our associates.
- To operate with concern for the environment and natural resource conservation.

West Liberty Foods' CEO believes that the company has made progress in each area of the mission statement, and that continuous improvement is one of the main measures of success.

Products

West Liberty Foods slaughters only turkeys; it purchases additional raw supplies for its chicken, beef, and pork products. The company purchases 20 percent more raw product than the Iowa Turkey Growers Cooperative delivers.

Figure 3. Percent of Value-Added Products Delivered to Customers



Source: Personal interview with CEO of West Liberty Foods

Eighty percent of the turkey, chicken, beef, and pork shipped out of the plant in 2000 was a fully cooked, value-added product, retailing for an average of \$8.00/lb. West Liberty Foods has aligned with the largest deli sandwich retailer, providing high-quality ready-to-eat deli meats throughout the nation.

Some of the turkey products that are marketed under the West Liberty label include the following:

- Oven roasted skinless turkey breast (3 pieces)
- Oven roasted skin-on turkey breast (3 pieces)
- Oven roasted turkey breast (5-7 pieces)
- Oven roasted turkey (multi-piece)
- Value breast/petite
- Mesquite smoked (5-7 breasts)
- Mesquite smoked turkey breast
- Hickory smoked breast
- Honey mesquite smoked breast
- Honey pepper smoked breast
- Smoked white turkey, tavern shape
- Turkey breast roast
- Rotisserie ready breast

Highlights of a Successful New Generation Cooperative

Looking back on a business that has struggled and prevailed provides insight on successful strategies that can be passed on to others. Seven conditions contributed to the success of this co-op.

First, *the members were totally committed to the success of the co-op*. Members knew when entering into the venture that their very livelihood as farmers depended upon the success of the co-op. They had leveraged part of their farming operations by joining, and they would do whatever it took to make it succeed. Second, *there has been no change in leadership on the board* since the beginning. The directors of the board also have remained in place, allowing plant management to have consistent leadership through the tough times as well as the good times. The co-op members believe while they are still a relatively new operation is not the time to rotate officers on the board.

Third, *the best management team possible was hired and given time to develop a business strategy*. As past president of the National Turkey Federation, the CEO had the network experience to connect West Liberty Foods with the right people. As past president of two different turkey-processing companies, he also had the experience to run West Liberty Foods. The Vice-President of Sales and Marketing was hired as an experienced marketing leader from a growing food company. The past experience of these and other management team members have helped to carry this fledgling plant into a market leader.

Fourth, *the co-op members had the ability to withstand a low price cycle of their finished products*. Taking over ownership of a processing plant during a low price cycle was both a curse and a blessing. The curse was that the co-op barely survived, but the blessing is that the turkey growers learned to raise turkeys more efficiently, and to trust each other.

Fifth, *the plant had a well-trained and experienced workforce already in place*. In order to prove to customers that they could produce a quality product on a consistent basis, the plant needed the skill of every employee in the plant. This skill was transferred to the customer in the form of trust. The employees are dedicated to producing the highest quality product in the industry.

Sixth, *there was open and constant communication between management and board members*. Management dealt with their fear of failure by constantly communicating with all principles of the organization, including the lenders and USDA officials.

Seventh, *there was good timing in the marketplace*. The low price “drought” changed the structure of the turkey processing industry. Two other plants in the U.S. either closed or changed to processing something other than turkey. Once the low prices turned around, it was soon evident that there was not enough turkey processing plants in the U.S. to supply all of the demand; therefore, customers were willing to inquire and sign contracts with West Liberty Foods.

Strategy of a Successful Processing Business

The business within the co-op must have a marketing plan that will take the processing plant from a “new kid on the block” status to an established, well-respected business. The management of West Liberty Foods developed the strategy listed below before taking over the plant. Currently, they are in their fourth year of a five-year marketing plan.

- *Become a co-manufacturer of high-end products—not commodity products.* West Liberty Foods would always hear the cry of “lower prices for my product” as long as they sold into the commodity market. They determined from the start that if their customers were selling product at very high prices, then the customer was less likely to request product at lower and lower prices.
- *Process products for the upper-end private label brands.* Major grocery chains now brand meats with their own label. They want only the highest quality meats to represent their label. Again, this is targeting high-end products for their customers.
- *Develop a market for the product before beginning processing.* Even if it means hiring a co-manufacturer prior to a plant going on line, a demand must be developed for the product. Developing markets for the product is more important than building the plant.
- *Discover niches in the market and develop a product line for this niche.* Through market research, West Liberty Foods has discovered market niches. Soon the company will produce products for those niche markets.
- *Align with nationally advertised retail shops and become their major supplier.* Often retail shops demand a continuous supply of high-quality product. They also prefer long-lasting relationships.
- *Produce more than one product to keep the customers loyal.* The marketing department of West Liberty Foods has discovered that to keep customers loyal, they must provide other types of meat besides turkey; therefore, the company also provides beef, pork, and chicken products to their customers.

Model for the Future

The Iowa Turkey Growers Cooperative and West Liberty Foods are a model for the new agriculture that will lead the Midwest to rural prosperity. West Liberty Foods is positioned to capture a significant percentage of the high-end specialty meat market, capitalizing on Iowa’s strengths: a well-developed transportation infrastructure, a well-trained workforce, rich natural resources, and abundant grain. Ultimately, value-added agriculture adds prosperity that will be shared among all of the producer/owners, and, in turn, it will be shared throughout the hometowns of the producers (See Table 3. Time Line on following page).

Table 3. Time Line

<i>Processing Plant</i>	<i>Year</i>	<i>Cooperative</i>
Louis Rich Sr. moves plant to West Liberty, Iowa	1943	
Plant is converted to chicken processing	1946	
Plant concentrates on turkeys	1949	
Plant is renamed Louis Rich	1960	
Louis Rich announces closing	May 1996	Turkey producers deal with possible loss of market
	July 1996	Iowa turkey growers form co-op
	Fall 1996	Members hire management and contribute capital
	Dec. 1996	Co-op takes over ownership of plant and names it West Liberty Foods
West Liberty Foods begins processing	Jan. 1997	Co-op employs 424 people
15 percent of end product was cooked or considered value-added; \$60 million made in sales	1997	Members must reinvest into cooperative
Management draws up plans to dissolve the processing plant due to unprofitable business; Lowest prices ever for turkey breast meat	May 1998	
Prices turn upward and demand increases for their products	July 1998	
	1999	Members have first full profitable year
New building is dedicated to increase product safety	July 2000	
Over 80 percent of end product was cooked or considered value-added; \$160 million in sales	2000	Co-op employs over 1,000 people
Plant is running near capacity	Fall 2000	Members consider expanding operation

Sources: Curry and Holmes 2001.

References

National Turkey Federation Web Site: <www.eatturkey.com>.

Perkins, Jerry. (Farm Editor.) Iowa turkey growers cooperative, farmers band together to get things done. *Des Moines Register*. Sunday, February 9, 1997.

Personal Interviews with West Liberty Foods personnel.

The National Turkey Federation. *Sourcebook*.

West Liberty Foods Web Site: <www.wlfoods.com>.