Cory's Country Lamb

Overview

Iowa is one of the top three producers of lamb in the nation and a leader in world production. One of the premier sheep genetics facilities in the world, which also spearheads the technological revolutions taking place in sheep insemination, is located in northeast Iowa. Yet lamb is not a high-demand meat product in the stores, nor is it common on Iowa family tables.

For Mary Cory, who with her husband Tom owns Cory's Country Lamb on their farm in Elkhart, this poses an opportunity to educate Iowans, alter their palates a bit and move along the food chain to become producers, processors and marketers of lamb products.

"It seems that if you want to make it in farming these days, you have to get bigger and bigger," said Mary Cory, who is primary manager of the farming operation. (Tom teaches agriculture in the Des Moines schools.) "That wasn't in the cards for us." So the Corys looked at what they could do, what they were "passionate about." They wanted to raise lambs, she said. And they needed to find a way to continue to do that and to increase the profit. Cory said they decided to go further into the lamb operation and to sell directly to consumers. Their research indicated no one else was offering the same service.

The Corys looked at what they could do, what they were "passionate about." They wanted to raise lambs.

Current products include: sheep jerky, ground lamb, brats, loin chops, sirloin chops, leg steak, leg roast, shanks, stew meat, summer sausage, Frenched rack of lamb, whole leg, boneless rolled legs, crown roast, bones for stewing or pets, Wool Wax Handcreme, and *Christine's Kitchen Cookbook* (lamb recipes from a Colorado sheep grower who also runs a bed and breakfast).

Background

The Corys have farmed about 300 acres, raising corn, soybeans and lambs, for about 15 years. Until a few years ago, they also raised beef, offering those in quarter, half or whole sections. The lambs went to the sale barn.

Then four years ago, they embarked on more direct sale methods. They put an ad in the paper, offering whole or half lambs. They sold five. The next year they began to sell lambs at the spring through fall farmers markets in downtown Des Moines (26 Saturdays) and in West Des Moines (22 Thursday evenings).

Both direct sales methods and farmers markets seem to be leading them somewhere positive. They sold 100 lambs by these direct methods three years ago; last year, they sold 180; and this year, about 225.

According to Cory, the farmers markets are a huge time commitment each year. She spends between 1,500 and 2,000 hours involved in them annually. At the markets, lamb is offered by the package or frozen. Orders are taken. And this year, samples (lamb-burgers and brats), as well as recipes, were given out. All of this activity began taking place from the back of a small pickup truck. This year, a cargo van was used.

Cory products also have been featured at the Home & Garden Show in February in Des Moines. Cory estimated they have easily given away 10,000 samples of sheep jerky; recipes often are also given away and cookbooks for lamb products are sold.

Four to six restaurants are among direct sale customers, but that business is sporadic, she said, because it requires calling on the restaurants once each week.

Cory lambs are processed at a Mingo locker, 12 miles from their home, where she said they have an excellent relationship and the turn-around time is held to two weeks. But the increase in sales volume has also created some potential problems. They are pretty much at capacity in terms of available labor at the locker. The current labor shortage in the state, she said, comes at a time when, "We haven't even tapped the markets that exist." Options are being considered in terms of labor sources and building a network to support further production and processing.

Cory said the enterprise and exploring its potential are extremely labor intensive for her. As a return to labor, she estimates only about 50 cents per hour. Volume is increasing and, as she noted, "That is the ticket. But it creates other problems."

Breakeven pricing is at about 65-68 cents per pound, which on some days is available on the open market. In direct sales, she estimates, they receive 90 cents per pound.

Cory's Country Lamb

Opportunities

Any potential problems have not hindered the business minds of the Corys. They plan to further explore using the pelts of the sheep to create a business in leather goods specialty items. Normally at the locker, there is a cost to take the pelts to the landfill. So Mary Cory decided to bring the pelts back from the locker to sell to others for their products or to create her own product line. Samples of leather in a variety of colors and a few sample items show potential if the manufacturing and marketing relationships can be worked out. Currently Cory's Country Lamb advertises tanned sheepskins and natural sheepskins for infant mats.

She also plans to use a carefully developed mail list of past and repeat customers to direct market products before holidays – Thanksgiving and Easter in particular. "This year we are trying to look at a more targeted approach."

In the last two years, the direct marketing approach has produced an increasing number of customers from ethnic groups who purchase the lambs, then butcher themselves. Last year, she said, one or two were sold this way. This year, the estimate is set at 12 to 15.

As they proceed to further define the avenues their business will take, the Corys have surveyed 450 of their customers to find out what products, if produced by them, would be big sellers. That list of potentials for direct selling or selling at group markets includes lamb and chicken products, eggs, dry beans, a variety of vegetables, fruits, herbs and flowers, as well as items that take some handling, such as flours, salad mixes, gourds, potted plants, Indian corn and broom corn. The questionnaire also asked if people would be willing to participate in some of the labor involved in raising and handling homegrown products. They see potential in the community supported agriculture efforts springing up around the state.

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U.S. Premium Beef

Background

The U.S. beef industry has spent the past 20 years realizing a constant and substantial loss of market share to other animal protein sources, particularly poultry. Much blame is laid on a lack of direction, lack of communication and lack of responsiveness to consumer markets. Price action within the production chain is predatory, resulting in consolidation at all levels. Until recently new product development was not a priority and those products that emerged were niche and not significant enough to affect market share trends.

Three companies control 80 percent of packing capacity. To-date these companies have been commodity/volume driven and are merchandising meat and non-edible byproducts throughout the world. Branded labels have been a very rare product in this environment. Volatility of price and margins at all levels has led to consolidation and distrust along the production chain.

Many producers have arrived at a level of frustration that makes them amenable to change. Today, there are several dozen niche players operating as alliances, coops or individual businesses with contracts in beef. These groups are fighting the traditions of cattle marketing and changing marketing and production techniques to receive larger margins in their own businesses. They are willing to own the product longer and take responsibility for quality (e.g. brand name) to increase their net profits.

These groups...are willing to own the product longer and take responsibility for quality to increase their net profits.

The U.S. beef industry has maintained a decades-long tradition of selling finished cattle to the packer who then owns and merchandises all products wholesale to a next level middleman. This selling process has been done primarily on a live weight basis with an average price agreed to for an entire group of cattle or even many groups.

Over the past two decades there has been a movement to more cattle being sold on a formulated price or forward contracted with the packer. The result is a phenomenon known as captive supply, which is the term applied to those cattle that are not traded on the negotiated spot market. Out of this has come the idea for the use of closed coops or alliances to give structure to a new system. Such a system would emphasize information, full trace-back of product identity, consumer responsiveness, brand name labeling and system efficiency.

How Cattle Are Sold

Through the first 60 years of the century, live cattle were delivered to terminal markets such as Chicago. Large commission firms at these locations handled the selling of the cattle to a packing company. This trade was on a price per hundredweight negotiated on day of sale.

In 1960, a start-up company called Iowa Beef Processors (IBP) revolutionized the process by moving beef packing to the areas where the cattle were finished and breaking the carcasses into smaller cuts that fit into boxes. This cut freight costs, reduced the overhead of stockyard space and improved some quality factors. They also put buyers in cars with two-way radios, eliminating the commission man from the selling process. The industry quickly went this way and the central stockyards eventually disappeared.

In 1999, the majority of live cattle were sold on the cash market directly to a packing company. The majority of these transactions were based on two factors: 1) the live weight of the animal minus a calculated shrink, usually 4 percent. 2) the negotiated price per hundredweight. This is known as selling live.

The second most common method of selling is to use a negotiated price for the hot carcass weight of the animal. This selling method places with the feeder the risk of the percent of the animal that actually ends up in a useable carcass (yield) at the packing plant. This method is known as selling "in the meat."

Another method that has evolved to a significant percentage of total cattle marketed is called formula pricing or grid pricing. This method uses a grid matrix of several value factors that represent premiums and discounts depending on how the animal dresses out in the packing plant.

Beginnings

U.S. Premium Beef (USPB) has its roots deeply planted in the cow-calf segment of the beef industry. USPB founders believed working together and sharing information in a coordinated system could help them compete against others in the meat industry. Teaming with Steve Hunt, a fourth-generation cattleman from Arkansas City, KS , were Terry Nelson, a commercial cow-calf producer, backgrounder and cattle feeder from Long Island, NY; Doug Laue, a custom backgrounder and cattle feeder from Council Grove, KS; and Terry Ryan, a commercial cattle feeder from Scott City, KS.

The group members first met in November 1995 to discuss the concept of forming a business. They studied business structures and successful agricultural cooperatives. They decided if producers were to be committed to consumer-oriented beef, they also had to be committed to ownership in the structure. Thus they proposed a marketing cooperative in which members would be required to capitalize the cooperative up front, rather than through earnings.

USPB was established on July 1, 1996. The producer-owned business elected a six member board of directors, representing all the beef industry segments. The board was later increased to seven members. In September 1996, the board members held meetings with livestock associations and media organizations explaining their concept of the information-based organization, which would provide feedback to the producers so they could make changes consumers wanted. Five meetings were held in Kansas with rooms packed full of producers. The road show was also taken to Colorado, Iowa, California, Oklahoma, South Dakota, Nebraska and Missouri.

USPB faced several challenges as it started, including a lack of incentive to produce higher quality beef cattle and the problem of a "mature" market. With beef demand seemingly at its peak, fewer and fewer ranchers have been entering the business. However, despite the initial difficulties, within months producers, representing more than 80,000 head of cattle, made a commitment to finance a business plan. The plan offered producers an opportunity by adding value through increased premiums for quality carcass characteristics. Total start-up costs were in excess of $1million. The newly formed company embarked on a membership drive. Members could join with a lifetime membership fee of $500 plus a registration fee of 50 cents per head of cattle that would be delivered to USPB. (The registration fee later was raised to $2 per head.)

Beef Plant Purchase

At the same time, USPB began to look at ways to enter the beef-processing segment. Control of a harvesting facility was necessary to complete its objective. The group analyzed a number of options, including building a new facility and custom-slaughtering cattle. In the end, it voted to partner with an existing successful company, Farmland National Beef, a subsidiary of Farmland Industries.

On July 31, 1997, USPB signed a letter of intent to purchase up to 50 percent of Farmland National Beef. To make its purchase, USPB launched a stock offering at $55 per share and $38 million was raised. That offering closed in late November. On December 1, 1997, USPB became a part owner of Farmland National. The coop initially bought about 25 percent of the stock. USPB matched the amount of stock raised with a loan from the Bank for Cooperatives (CoBank).

In December 1997, USPB launched another stock offering, which closed a month later. With the new stock USPB bought more shares of Farmland National Beef, but will not disclose total percentage ownership.

Farmland National Beef company operates two plants in Dodge City and Liberal, KS. It is the fourth-largest beef packer in the U.S. and markets boxed beef, prime and Certified Angus Beef domestically and internationally. Additionally, FNB markets further-processed and value-added products, primarily portion-controlled steaks, to restaurant, mail order catalogs, foodservice and retail customers through the Kansas City Steak Company, which it acquired in 1997. Farmland National Beef markets its products under four branded labels: Certified Angus Beef, Farmland Black Angus Beef, Farmland Certified Premium Beef and Kansas City Steak Company.

The key to USPB was the purchase of a processing facility, with associated branded products. Without a brand recognizable to consumers, overall the beef business doesn't have much going for it. In a good year, IBP, the biggest meatpacker ekes out a 1.7 percent pretax margin. National's results last year were $43 million pretax net on sales of $2.2 billion. But its sales of branded beef, at $100 million and growing 30 percent a year, exceed those of the three largest packers combined.

Farmland National watches the beef all the way to the grocery store shelves. Distribution is helped by the fact that Farmland already has a national branded presence in pork. The Farmland beef brands are displayed in their own refrigerated display cases to distinguish them from commodity meat. The branded beef products are now in more than 800 major stores, including several major chains from coast to coast.

Types and Conditions of Membership

There are two types of membership in USPB: lifetime and associate membership. Additionally, producers can lease shares from stockholders within the membership. The lifetime membership fee for a stockholder is $500. A one-year associate membership fee costs $100. Individuals do not become voting members until they have purchased at least 100 shares of common stock in the cooperative. Although membership common stock and delivery rights are transferable under certain conditions, membership in the cooperative is not transferable. The coop is not obligated to the member other than the obligation to issue a membership certificate.

In addition to signing a membership application, the farmer/rancher signs a Uniform Delivery and Marketing Agreement and commits to deliver one head of cattle annually for each share of stock purchased. There is no refund of the membership fee, but the stock is transferable.

Two forms of delivery agreements are available: one agreement for "even slots," that is an even monthly delivery of the delivery commitment; and one agreement for "odd slots," that is delivery of the delivery commitment during one or more specific monthly periods each year. For odd slots, the specific monthly delivery period(s) are to be selected by the designation and if overfilled, by an alternative selection procedure. If a person is not able to meet their delivery schedule due to weather or other factors, USPB works with the producer to deliver cattle when they will be ready for market.

Associate members are not allowed to acquire any shares of the common stock of the cooperative or to become voting members until they acquire at least 100 shares of membership common stock. The lifetime associate membership fee is $500. The one-year membership is $100. The Associate membership fee is non-refundable.

Associate members are not allowed to acquire any shares of the common stock of the cooperative or to become voting members until they acquire at least 100 shares of memebership common stock.

The cooperative has the right to terminate membership if the member fails to deliver cattle, dies or takes actions that will impede the Cooperative from accomplishing its purposes.

Getting Started

On December 1, 1997, USPB started processing cattle. Its more than 690 members from 24 states have delivered approximately 8,100 finished cattle each week through the end of 1998 to packing plants in Dodge City and Liberal, KS. Through August 1999, more than 800,000 cattle have been marketed through the USPB system.

Features of U.S. Premium Beef

U.S. Premium Beef lists the following features of membership in the organization.

- Members may lease or own shares.
- The opportunity to partner with feedyards or other members in retaining ownership of cattle.
- No geographic restrictions on where members can do business. Members decide where the cattle will be fed. USPB cattle have been fed in more than 300 yards in 11 states.
- Non-breed specific (except that cattle can not have a high percentage of Brahma, dairy, heiferettes or bulls).
- Value-based grid pricing system that is very competitive.
- Delivery dates are determined by the owner at his/her perception of their optimum endpoint.
- Sharing of profits through stock dividends.
- Transportation credit of up to $0.55/cwt.
- Forward contracting is available.
- Producers receive individual carcass information free of charge.
- Advice and consultation from USPB field staff with assistance in management, genetics, economics and animal health.
- Access to market animals through value added programs such as Certified Angus Beef, Farmland Black Angus Beef, and Farmland Premium Beef.

Producers who lease shares can sell cattle on the grid, receive individual carcass data at no charge, obtain up to a $0.55 per hundred weight transportation credit and earn any patronage dividend paid out to USPB members based on the earnings of FNB.

How Producers Are Paid by USPB

The program is non-breed specific. However, cattle types with heavy Mexican influence do not support the product philosophy, regardless of grading characteristics, and are not encouraged to be marketed through the program. USBP does not accept heiferettes, Holsteins, cutting bulls or cattle with a high percentage of Brahman influence.

The base live price for the grid is the weighted average in Kansas reported by the USDA for the week previous to the week the cattle are delivered plus $0.25 per hundred weight. The base live price is converted to a hot price using the previous week's plant average hot yield for non-grid cattle purchased in Kansas by Farmland National Beef.

Actual performance of the cattle marketed under USPB's grid are compared to a base 52 percent for Choice or better and the rolling average performance of Kansas non-grid cattle at Farmland National Beef during the preceding four weeks for Yield Grade premium/discount calculations. Prime, Certified Angus, Hardbone, Ungraded (Standard, Dark Cutter) and carcass weight premiums/discounts are calculated with no comparison to plant averages. The Choice premium/discount is calculated based on a four week rolling average of USDA Heavyweights Choice/Select cutout spread. Yield Grade 1 and 2 receive a premium for being above plant average, but are not discounted if below the plant average. Yield Grade 4 and 5 receive a premium for being below plant average and discounted for greater than plant average.

- Settlement: All cattle sold on the USBP grid are issued a cash advance on the day of delivery, equal to 85 percent of the weighted average live price for the week prior to delivery. A final check is issued when final grade and plant averages are determined, typically Monday or Tuesday of the week after delivery.
- Freight: Farmland National Beef is responsible for lining up transportation and for all costs associated with transporting live cattle from the feedyard to the plants. However, freight charges in excess of $0.55/cwt are deducted from cattle proceeds.
- Carcass Data: Individual and group carcass data are provided at no charge.
- Forwarding Contracting: U.S. Premium Beef offers to members selling cattle under the grid the option to forward contract up to six months in advance. Each week a basis is offered for future delivery periods. All forwarding contracting intentions are communicated to the central procurement office with order execution taking place during market hours.

Unit Retain Fee

A unit retain fee of $12/share is deducted from the cattle proceeds. A unit retain fee is used in a closed marketing cooperative (such as USPB) to build a reserve fund. USPB had the choice of either deducting a unit retain, or increasing the purchase price of its stock to create a capital reserve fund. This unit retain is repaid one year from the date the cattle are processed. The repayment of this fee is contingent on the future success of Farmland National Beef. The $12 is repaid on the one-year anniversary of the processing date calculated at $12 plus one percent over the January 1 prime interest rate.

The First Year

Financial

During the first year of operations the organization delivered about 8,100 head per week. However, the organization incurred additional expense, mostly due to start-up. Also the organization had a 14-month year, because it moved its year end to coincide with Farmland National Beef's fiscal year. The bottom line is that Farmland National Beef showed a net income of $31 million. USPB's share was $7.35 million. Expenses and operations for USPB were about $3.4 million. Thus, USPB showed a net income of $3,971,233 and a taxable income basis nearing $3.1 million. That computes to about $12 per head delivered. Estimated taxable income is approximately $9.61 per head. The estimated patronage return per head is $1.00-$1.70.

Producer Satisfaction

One of the concerns that many producers had initially was that if they sold cattle to USPB, other packers would not purchase cattle from their feedlots. According to company officials, it has not been a problem. However, it was difficult initially for producers to sell in a quality-based meat program vs. selling live on the cash market. They had to make changes in management practices.

Also, the company says, some USPB members did not believe the carcass data sent to them was from their cattle. However, the next time the producers marketed their cattle, they were invited to the packinghouse to see what was under the hide of their cattle. Many producers were surprised that the meat was not the quality they thought they were producing and have started to make the necessary changes.

Staff in Place

In its first 12-18 months of operation, the staff has grown to meet the needs of the organization. Currently, there are two offices for the organization, one located in Kansas City, MO, and the other in Dodge City, KS.

Success Explained

It would appear the USPB success in moving relatively quickly from concept to reality was tied to a short list of issues:

- First, through a process of rumination, the principle leadership of the USPB movement was ready for change. Many of the key players and early signatories have had industry involvement on a state or national level that exposed them to the decade long discussions about reasons for loss of market share. They appear to be people with substantial seasoning in the business but also many years ahead of them.
- Second, there is a mix of feeders and cow/calf or stocker operators. Other similar concepts have failed to develop due to a lack of such comprehensive backing.
- Third, emphasis was placed on information with application toward quality improvement. The group seems to have a powerful dual goal of improving individual profitability by doing the things that are good for the industry as a whole.
- Fourth, the group was willing to think no small thoughts. It went for an ownership position understanding the control that would come with it. Since the stock gives a member both the right and the obligation to deliver cattle to FNB, the commitment is solid with all parties.
- Fifth, they chose a company with premier management in Farmland National Beef. The company had already committed huge amounts of money to process and

product improvement since 1992, so it was well positioned to grow. Furthermore, FNB had good brand name presence in the domestic market with a strong international reach in place as well. The leadership of USPB was astute in recognizing the value of the brands and the well-developed merchandizing structure of FNB.

The fact that USPB was able to reach a deal with Farmland was probably a matter of timing and philosophy. Farmland itself could see a benefit from freeing capital it had tied up in FNB. USPB was forming under a cooperative structure that offered a good fit for the companies at the outset. Farmland has long recognized its connection to beef production, particularly at the cow/calf level. Through the '90s it had been reaching out to vertically coordinate segments of the industry served by the coop. USPB would certainly fit the Farmland philosophy for improving returns for its members.

As the fourth largest packer, FNB has certainly had to feel competitive pressures from the big three packers (Monfort, IBP and Excel.) The company has been a strong "spot market" purchaser over the years and not a big contract procurer of supply. By being tied to such a narrow region there have certainly been times when the big three packers could make life difficult for FNB. In the interest of survival and profitability it became apparent the company would need to reach ahead and control some supply.

Another timing factor is the growth of grid marketing. With a push for information, the producer has become more likely to sell on grid to get the data he or she needs. The commercial feedlots are looking for service value to offer clients so special systems or markets would fit well. They are also struggling to help clients achieve profits. More cow operators are looking to retain ownership through slaughter.

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Resources

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Suther, Steve, "U.S. Premium Is Born," Beef Today; Sept. 1996.

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Niman Ranch Pork Company

Overview

Paul Willis and his Thornton, IA, hog production operation have received some pretty heady notoriety over the last year. There have been articles in New York City publications, articles in the *San Francisco Examiner*, appearances on TV, and editorials in, among other publications, the *Des Moines Register*. Several specialty trade publications dealing with production agriculture or with food topics have highlighted his efforts.

What's so special about the way Willis raises and sells pork? Just about everything.

Willis is part of the San Francisco Bay area Niman Ranch Food Company, a firm that offers free-range meat products, pork in the case of Willis. Among the biggest claims of Niman Ranch is that the meat offered by the company to West Coast outlets and high-caliber restaurants simply tastes better, according to some. It tastes better, they say, because of the natural way it is raised – lots of space, humane conditions, no growth hormones or sub-therapeutic antibiotics.

Willis can take the description of how special growing translates to better product further. Animals that run, get more oxygen in their systems. They build different types of tissue. They are happier. And this animal friendly environment means the product tastes better.

Niman pitches the story as a contrast to the "mass production of meat on modern factory farms." The company, which began operation more than 20 years ago, has established, it says, a reputation for the best tasting meats available. Its meat products are often listed on the menu with the word "Niman" attached. The writings of food-related editors on the West Coast, where Niman products abound, underscore the claim.

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Background

Willis thought he would be done with farming after graduating from the University of Iowa in psychology. He went into the Peace Corps and was placed on assignment in Nigeria. As it turned out, the contacts developed during those years may have set the stage for his pork-raising operation.

He had re-entered farming in Iowa and, until six years ago, was raising pigs the way he had always raised them. For the most part, they received few antibiotics and chemicals, were range-raised and were treated in what Willis terms a "humane" way that allowed them to produce what he believed was better meat.

Then he made the connection with Niman Ranch meat products through a Peace Corps friend who had marketing links to the organization. It was the kind of specialty market he had been looking for. The requirement was for free-range hogs, fed without using meat by-products, not given steroids or sub-therapeutic antibiotics or other artificial growth stimulants, and raised with "dignity and respect."

At that point, Willis and another hog producer from California were the only producers from whom Niman purchased pork. The other producer did not continue to live up to the standards set by Niman, so Willis' operation within the last couple of years has suddenly become the sole provider of pork to Niman. "All of a sudden, there was demand for my raising 2,500 hogs and there were certain times we didn't have enough pigs." That was the beginning of the Niman Ranch network, now at 40-50 producers in the Midwest. The search continued for other pork producers who fit the "type." Pigs need to be raised in pasture or bedded pens/ hoop houses and meet the other special Niman criteria.

Niman Ranch Pork Company

According to the quality manager of Willis' operation, increasing numbers of applications come in to the business from producers who would like to sell hogs into the Niman network. Each applicant must meet the criteria of a Quality Standards Affidavit, send copies of feed ingredient labels and feed formulas and send samples to the Thornton farm as well as to the Niman Ranch headquarters in California. If everything holds up to standards, someone from Niman Ranch Pork Co. will make a site visit to the producer.

Criteria

The following are among criteria sent to potential Niman ranch producers. Pigs must:

- have been raised on pasture or in deeply bedded pens;
- have not been given any form of growth-promoting hormones or steroids; and
- have never been given antibiotics.

Recently, the Niman/Willis enterprise was approved by the Animal Welfare Institute. A set of standards that must be adhered to by each producer in the network is lengthy and detailed, covering such aspects as bedding, window openings, and, most of all, kindly treatment of animals. It requires that farms, in order to meet criteria, must be family farms and the term "family farm" is defined in detail. Networking is allowed among family farms.

The Niman Ranch Pork Company of Iowa received Extension 21 funding in 1998 and a report issued as follow-up from Extension 21 listed the numbers of hogs produced by the group as 3,000 in 1997; 10,027 in 1998 and an estimated 15,000-20,000 in 1999. Producers averaged $43/head over market price, according to the report.

The Difference

Timing and connections just seemed to work for Willis. He has a built-in market for the specialty hog he wishes to produce. However, the majority of Americans (and others) who purchase pork products at meat counters are not necessarily in tune with the flavor and humane issues that are so important to those involved with Niman Ranch products.

There is some progress, however, Willis noted. People, he said, are beginning to want to know how their meat was raised, where it comes from and why they are better off buying one brand vs. another.

A few months ago, families involved with the Niman network were in Washington, D.C., at a natural foods conference. Interest seemed strong. Willis said that the 13th largest grocery chain in the country and several other large chains are "natural foods" stores. The growth and success of these companies indicates, he said, that at least a segment of our consumers are interested in knowing more about their food and believe in the better taste or value in "whole" foods. These consumers – as well as the restaurants and the customers to whom the restaurants cater – all seem willing to pay higher prices for this distinctive pork product and the flavor and the values they perceive it brings to them.

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Resources

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"This Little Piggy . . .," by Patricia Unterman; San Francisco Examiner; June 27, 1999.

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West Liberty Foods

Overview

Paul Hill is a third-generation turkey producer. His son, now a part of the operation, brings in the fourth generation. When you listen as Hill relates the progression of the "old-line, independent turkey and beef production" family line, however, you begin to feel the enormity of risk and challenge the operation has seen during his years at the helm.

Hill is a graduate of St. Olaf College in Minnesota. There, he studied economics. He learned the risks involved in getting ahead in agricultural production through his heritage and hands-on experiences, both good and bad.

He's seen bankruptcy, borrowed heavily, and, initiated substantial growth in his turkey production enterprises, especially in recent years as many have seen only increasingly tougher times. Through it all he has kept and spread his optimism. He puts deals together that work; and if they seem risky beyond what many would assume, he has always said, "I'll make it work."

He puts deals together that work; and if they seem risky beyond what many would assume, he has always said, "I'll make it work."

Background

As Hill and his father entered the 1970s, they went into confinement production of turkeys. In the mid-70s, they joined a group, as minority stockholders, buying a processing plant in Storm Lake. Three years later, the majority owners went broke, and Hill and his father took over the plant. They sold it in bankruptcy.

In 1979, the Hill farmers began contract growing turkeys for Belmar, then a few years later contract grew for Land O Lakes. They built a new farm in the mid '70s in the same area they had always farmed, near Ellsworth.

The simultaneous cattle operation, which had grown to nearly 5,000 head, began to see troubled times in the late '70s; Hill and his father "rode that wave down." But Paul Hill had "bought a lot of farm" by then. In 1984, the father and son team had to sit down with bankers and liquidate the cattle operation and 40 to 50 percent of their land. Rather than work with realtors who were having disappointing luck, Paul Hill sold the properties himself.

He put together a deal with Louis Rich to grow turkeys on contract. It was an optimistic venture for which he had to borrow heavily, cash in on useless buildings and do some major "dealing." He let help go and used the kids. Money was borrowed at a hefty 14 percent interest.

But Hill knew that poultry was one of the few contract production areas that worked – you just had to run volume. To do that he had to be "big." He had land and buildings; he had the knowledge; and he had the confidence. He borrowed from extended family, putting them into the deal package. He ran the operation for them, they made money if things worked. That Louis Rich contract was for 70,000 turkeys a year. Hill owned part and managed all of the partner group's production, taking production to a total of 650,000 head.

Opportunities

All through his production years, Hill has been able to visualize opportunity. In the 1970s, he began dabbling in composting turkey manure for use as fertilizer and, using an aerobic fermentation process to remove all bacteria and create a high protein feed for cattle. His products have sold well. They are always sold out, he noted. He is registered as an organic fertilizer producer.

Things were going well for the group. But unsettling times with risk involved, were ahead as usual. In 1995, rumors began to float that the Louis Rich operation near West Liberty was going to fold. Hill served on committees and the governor's advisory group. They needed to focus on what could be done to get a big company to come in and buy the plant. Louis Rich announced it would close in December of 1996. Hill and 47 other growers were in the same position – up to 50 percent of the state's turkey production would be gone if the plant left.

Hill said they began to organize with Farmland as a coop. "Farmland took us down a path toward gaining control. They said 'you' need to look at buying a processing plant, then Farmland would run the operation."

A cooperative was formed and a manager hired. Hill estimates he spent every moment from May through December that year putting a deal together, working with Farmland and Louis Rich. During the process, Farmland began to have difficulties and the process wavered. But in late summer of 1996, the 47 producers decided to take on the risk themselves. The group received millions in USDA loan guarantees and through the VAPFAP program. They went to the public through meetings and press releases to build enthusiasm. The growers all invested heavily. The plant already had more than 400 experienced employees. Sixty percent of the producers operated near Ellsworth; the other 40 percent were near the West Liberty facility. Those near Ellsworth had to begin to purchase turkeys (rather than have contract turkeys) for the plant they now owned.

How much risk can people take on? In the case of these turkey producers, there was more to come. In 1996-97 the turkey market dropped substantially. "It was equivalent to $8 hogs," said Hill. "We had many come-to-Jesus shareholders meetings. And we lost six or seven shareholders." At its low, the group sat with 2.9 million turkeys.

But West Liberty Foods was soon to be on the rising end of the teeter-totter. By spring 1998, the market changed. Plus, said Hill, "We had learned how to grow turkeys cheap!" Last year, West liberty processed 4.5 million turkeys and now employs around 800 people.

"We have put a tremendous number of deals together," said Hill. There are huge clients and their highly specific market specifications to meet – clients like Sarah Lee, Armour Swift Eckrich and Butterball. West Liberty also does private label products for Kroger, which puts a label on its turkey products claiming it to be the best product available. Nationally, private labels were up 7 percent in 1998. Branded products were flat.

One of the keys to success, said Hill, is the growers. Now there are people waiting to join the group. The growers all believed in what they were doing, and they attempted to do the "right" thing. Yet another key was to hire the very best person available to run the plant. Hill's job as chair and CEO of West Liberty Foods, is to "understand the independent farm people and merge their ideas with those of corporate people in the real world of corporate meat manufacturing."

West Liberty is a value-added company, with 18-20 percent of its business in "further processing" meat products. Everything else is sold as commodity. They add ingredients, slice and add other enhancements according to what the customers want. Fat-free, smoked, whatever, the company can accommodate. The goal is to grow the further processing work to 75 percent of business; currently it is at 52 percent.

The processing plant also is looking to enlarge business in chicken, beef and pork products in the next couple of years.

Some growers, like Hill, are also venturing into the "natural" or free-range type of turkey production on their farms, which will eventually add to the capabilities of West Liberty. As in other animal production, Hill has found some consumers, particularly on the East Coast, are willing to pay up to 25 percent more for those identified products.

"Control" has continued to be an increasing component of the success of Hill, his family of producers and those he has brought into the business venture. In order to make that happen, Hill has put a major chunk of his time and effort into building relationships with his customers and partners; relationships that allowed him to make those critical "deals."

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LamPost Meats

Overview

Even though his father headed up one of the large packing plants in Iowa, Stan Lammers saw his future in other types of business. He was a salesman, working first as a sales manager for hog feeders in eastern Iowa, then selling automobiles. Then the enabling thought hit – why not merge his energy and sales/business know-how with the experience in meat processing of his father?

"Some things hold true no matter what you do, good-business things," Lammers said.

Lammers founded his business, LamPost Meats, which takes meat products considered to be of low sales value among large slaughter outfits (offalls) and further processes them into small quantity packages of frozen, ready-to-cook specialty items, like chitlins, which are of higher value in specialty, ethnic markets. And, he noted, he calls on almost a daily basis to draw on his father's expertise.

Filling a consumer need, then knowing markets and getting to them to sell product are areas where Lammers said he did his homework

LamPost began its business trek in 1993. Within six months a processing room was built and federal approval gained. It started production before the flood of '93 hit the area of its home base on the south side of downtown Des Moines. While the building itself escaped damage, Lammers said he had three weeks of inventory and six weeks in which to get it sold. That pushed him to further develop his markets.

LamPost holds, controls and runs its own inventories. Most of the product is frozen. And, while the initial venture involved only chitlins, it has since expanded into such other specialty items as beef tripe and pork and beef feet.

Primary markets around the country are stores and restaurants that wish to invest in sales to African-American, Hispanic and, on a more limited basis, Asian customers.

Slaughter houses tend to take the meat parts that Lammers is interested in and sell them cheaply in bulk form – without further processing. LamPost purchases these products and does further processing, then puts them through a unique freezing and packaging process, so they are case-ready for the customer, in package sizes that are useful for individual family cooking.

Background

Filling a consumer need, then knowing markets and getting to them to sell product are areas where Lammers said he did his homework. To make the original LamPost product, he said, all they did to add value was reclean the meat product, then package and process (freeze) it in a way that was more popular and more useful to meat shoppers. Package size and readiness to cook are important factors in meat sales of any kind. Lammers was selling convenience.

He is proud of the fact that he helped make a market expand dramatically. But then, he admitted, the market became over-saturated. LamPost had to scramble to find other avenues of product and revenue. It moved into processing of beef tripe and pork and beef feet, going through the same process of information gathering and market research, then making those products case-ready as a convenience to certain groups of consumers.

Since chitlins were not a major consumer product in some areas, that meant working directly with store owners to sell the idea. A large chain in Iowa, for example, might have 300 stores, but maybe only 10 move a decent quantity of chitlins; maybe 25 move some

LamPost Meats

quantity. So the sales approach does not work as well with management of the chain as it does with individual store managers. He said in the south, there is high demand for the product and lots of small community stores, but they can get the product locally.

Ninety percent of his business is done with the top 25 grocer chains in the country.

In order to do business successfully in ethnic markets, Lammers said, he asked questions of everybody with whom he talked – consumers, store managers, chain managers and restaurant people. He sought to identify potential customer groups. He asked what worked for them. What would make a product better? What do they like and what don't they like about a product? He frequently shipped product by costly FedEx to let people (outlets) "see if the product flew." Even now, he reminds people that the meat industry is a high dollar industry.

Opportunities

Eventually, he said he wants to look more definitively at international export markets. But he noted a couple of problems with taking the business that direction. Some of those countries in which consumers can afford meat products can and do already import high dollar cuts of meat from the U.S. In underdeveloped countries, where consumers simply want more cheap protein, the large packers take the offall and package it in some lesser way, perhaps in as large a box as they can to sell to consumers as cheaply as possible. Lammers' company gives "further service" on these cheaper cuts, but in underdeveloped countries, labor is cheap and any further service can be applied (if at all) more cheaply.

What other new products might be in the works for the processor of specialty case-ready meat products? Perhaps different packaging, something even more attractive, he said. Or there may be opportunities to handle more meat items, such as pork butt.

"We are still in the business of service," he explained.

He sees the specialty markets as his continued niche. "When you start getting into the full cuts of meat, you've either got to be cheaper or you've got to be better," said Lammers. Maintaining staffing levels to grow the business is one difficulty right now. Currently LamPost operates with one office manager, a plant manager and nine employees. "I could sell for most of a day," he said, "but I've got enough busy work to…."

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Nahunta Pork Center

Overview

From all states in the Union, people come to Pikesville, NC, to choose from more than 80 different retail pork offerings by Nahunta Pork Center. On average, each customer will carry out more than 50 pounds of fresh pork. One of the few marketing rules broken by Nahunta is "location, location, location." It is located at a county intersection in North Carolina, in the heart of the most rapidly growing and technologically advanced region of swine production in the world. Nahunta Pork Center, on the surface, reminds one of simpler times when people frequented neighborhood markets and supported community merchants. On a deeper level, Nahunta Pork epitomizes two fundamental premises on marketing – uncomprising customer service and production and marketing flexibility.

The holding facility is spacious, extraordinarily clean and bedded with wood shavings. Hogs are provided full feed and water.

Background

Mack Pierce began raising hogs as breeding stock, but he always wanted to get into the slaughter business. In 1955, he began slaughtering hogs and selling the pork on a custom basis to individuals. In the 1960s, Pierce began selling whole carcass hogs to local grocers. In 1975, he opened a retail outlet in a converted bulk tobacco barn. During the first week three hogs were processed for retail sale. They were sold out in a matter of hours, and Nahunta Pork was off and running. The original tobacco barn is still a part of Nahunta Pork Center as it exists today. In 1984, 10,500 hogs were processed. By 1992, this had grown to 23,000, and by 1999, the number had expanded to 40,000 hogs per year.

Currently, Nahunta Pork Center owns no hogs. They are purchased from both large and small local producers. Delivery time is scheduled in consideration to the size of hogs needed. Hogs are priced from the Iowa/southern Minnesota quotes for the day, although producers often receive a premium mark-up as well. Nahunta prefers to purchase lighter colored hogs because they pick and clean better than either durocs or hamps.

Purchased hogs are brought directly to a holding facility connected to the slaughter plant. Hogs may weigh from 80-pound roasters to 400-pound sows. The holding facility is spacious, extraordinarily clean and bedded with wood shavings. Hogs are provided full feed and water. There are two beneficial aspects of this seemingly routine setup. First, the holding period greatly reduces stress on the hogs. Second, since every hog is slaughtered on demand, the needed size of hog will be readily available. If an order for roaster pigs comes in, the lightest weight pigs can be slaughtered. If the demand for sausage is heavy, more sows are selected to meet that demand.

The packing plant is a relatively standard configuration. The present capacity of 170 head per day is due to cooler capacity limitations. One unique feature of the plant is that it is fully finished in stainless steel, which Pierce estimates would add $1.5 million to the cost of a similar sized plant. The stainless steel is not required by HACCP, but adds to the ease of cleaning and contributes to the extraordinarily high quality of the operation. It is estimated that the current replacement cost of all the facilities at Nahunta Pork would be $10-15 million.

The slaughter operation requires 10 employees. They are expected to arrive at the plant at 5 a.m. and remain until the necessary hogs are slaughtered. This ties into the "just-in-time" aspect of the production. Costs of slaughter are approximately $20 per head. Processing, which includes smoking and cooking, is $20 per head and cost of retailing, which includes final cutting, wrapping, labeling and customer service, is about $20 per head. Total employment averages 70, with an annual payroll of $1.6 million.

Nahunta Pork Center

Opportunities

As a quality standard, no pork is sold at Nahunta Pork Center as fresh product that is more than 48-56 hours after slaughter or 36 hours out of the packing plant cooler. After that time limit, the meat is frozen and discounted 30 to 50 cents per pound. Another unique aspect of marketing is that no empty space is allowed to show at any time during sales hours. This is done so customers will not feel like the case has been picked over.

Country cured hams (30,000 per year) are a significant part of the operation, comprising 25 per cent of total sales. The salting process takes five weeks with each ham hand rubbed with salt three times. Hams are hung in an 81-degree Fahrenheit room with 50-60 per cent humidity for an average of five to six months. They are treated with sodium nitrate to protect against trichinae, so they may be eaten uncooked. There are between 200 and 300 hams on display at all times. Currently 75 per cent of all hams are sold as sliced product to reflect changes in customer preference and lifestyle. The seasonal increase in demand for hams in November and December requires the stockpiling of hams from February to April.

Sausage is another major product at Nahunta, with an average of 10,000 to 15,000 pounds sold per week. However, in peak seasonal demand, it may sell as much as 30,000 to 40,000 pounds per week. Nahunta offers two basic types of sausage: Italian and English. Both are offered in either mild or hot varieties.

When asked about advice for pork producers who wanted to move up the market channel, the owners of Nahunta recommended growers start at farmers markets rather than investing in a formal retail outlet. This allows the producer to become acquainted with customers, discover their preferences and build a solid base before making investments. Nahunta has been in business for 44 years, and it is unrealistic to immediately develop a market of its size. Mack Pierce says he has opened his doors to 20 individuals attempting to replicate the Nahunta Pork Center. He knows of only one company in existence, and it has been restructured twice. Four traits succinctly characterize Nahunta Pork Center operations: specialization; product flow management and responsiveness; product quality; and customer service.

Resource

Summarized by Denzil Stacey, CIRAS, with permission, from Case Studies of Value Added Pork Production and Marketing *by Brian Buhr, University of Minnesota. Published in 1999 by National Pork Board as implemented by the National Pork Producers Council.*

Goridto's Meats

Overview

Goridto's Meats of Ogden, Utah, is a prime study of moving to a specialized ethnic market—marketing pork to the U.S. Hispanic's. The company had small beginnings. Its first effort in May 1996 was to market seven custom slaughtered pigs from the back of a pick-up truck. By December 1998, Goridto's Meats was slaughtering 700 head of hogs per week. Taylor McDonald, plant manager, explains how this was accomplished: "It's all marketing and attitude. We never produced anything we didn't already have sold." This study illustrates how one firm instigated a direct marketing program and worked within the context of the changing structure of the swine industry to successfully market pork products to an under served and growing Hispanic market in the Southwestern states.

In 1990, Utah marketed 45,000 head of hogs. By 1997, annual marketing was 301,000 head. The region's very small number of market hogs made it difficult for packing plants to survive. The last packing plant in the region closed in 1993, leaving producers without access to local packing facilities.

Background

In the mid-1980s a group of 12 viable independent pork producers joined together as the Utah Pork Producers. They began to purchase premix feeds from Ohio as a way to cut costs and improve profitability. When the last packing plant closed, they began to jointly ship market hogs to packers in Los Angels, CA, and Twin Falls, ID. They also jointly shipped semi loads of sows to Omaha, NE. Although pooling hogs for transport helped alleviate the unit cost of transportation, it clearly was not overcoming their comparative disadvantage. Unable to further cut costs, they pursued the idea of obtaining greater value for their hogs by finding a way to direct market hogs or pork products.

Unable to further cut costs, they pursued the idea of obtaining greater value for their hogs by finding a way to direct market hogs or pork products.

After unsuccessful attempts to market hogs to Mexico and Russia, the group began to consider markets closer to home. In May 1996, as an experiment, it custom slaughtered seven hogs and delivered them in a pickup truck to the Talamaho grocery store, which served primarily Hispanic customers. Within only a month, 20 hogs per week were being delivered to the grocery. Sales continued to grow so that by January 1997, they were shipping 50 hogs per week in an 18-foot refrigerated trailer pulled by a pick-up. By June 1997, 100 hogs were being custom slaughtered and delivered to Mexican-American grocers in Salt Lake City. As acceptance grew for the pork, the owner of Talamaho grocery store had begun to deliver slaughtered hogs to other Mexican-American grocery stores in the area.

Although unrelated to Utah Pork Producers at this time, two entrepreneurial young men, Taylor and Bo McDonald were selling beef door-to-door in Salt Lake City. A third, Robert Sterling was selling pork door-to-door to Latino customers in Logan, UT. The efforts of these three gentlemen served as an excellent opportunity for direct contact with Mexican-American consumers to find what they desired in meat products. In the end, Goridto's Meats would arise as a collaborative effort between these players.

In January 1997, Taylor McDonald joined the marketing side of the operation of Goridto's. Taylor brought two critical components to the operation: 1) He had sales and marketing experience with Hispanic customers, and 2) he spoke Spanish. The addition of Taylor allowed Goridto's Meats to contact other Hispanic operated groceries rather than relying on Talamaho grocery to produce expanded markets. Additional Hispanic markets were

Goridto's Meats

developed in the Salt Lake area and additional opportunities arose in Los Angeles. Calls were starting to come in for orders.

What was the niche that Goridto's had tapped into? Goridto's customized its pork products to the preferences of the Hispanic customers. Initial trials involved marketing the whole carcass. The vast market for pork in the U.S. is for boxed primal cuts. In Mexican-American cooking, the spine bone is an important cut for making stews (pazole). This cut is completely unavailable once the carcass is split as in most packing plants. Secondly, there is some preference for leaving the skin on the carcass. This occurs for two reasons: 1) Some cuts are simply left with the skin on, and 2) when the meat-cutters skin the carcass a small amount of meat is left on the skin. This increases the value of the chicherones (fried pigskin). For example, chicherones without any meat attached, retail for $0.99 to $1.99 per pound, while chicherones with some meat trim left on sell for $4.99 per pound. Hog heads are also very popular during tamale season, which extends through November and December.

Many Mexican-American groceries offer Carnicerias (delis) that feature canitas, tacos and other pork items for consumption on premises and for take-out. In addition, pork is used extensively in chorizo (sausages). Chorizo is highly variable with each store using different recipes to attract customers. All of these unique factors combine to add value to the pork delivered by Goridto's to Hispanic markets.

Opportunities

Goridto's had not set out to buy a packing plant. But in 1997, when the two custom plants doing its slaughter could not process the number of needed hogs on a dependable schedule, the company decided to purchase an unused plant. The plant of 800 head-per-week capacity was purchased for $200,000. An additional $20,000 was needed to make the plant operational. Goridto's found that it could slaughter a hog for $20-25.

Based on customer preference, Goridto's has moved toward slaughtering lighter weight hogs in the 180-220 pound range. With 700 hogs slaughtered per week, Goridto's was faced with the problem of hog procurement. The solution to the problem came from Circle Four Farms. As with most all-in-all-out large-scale producers, Circle Four is often faced with lighter weight or runouts on finished hogs. This synergy has resulted in value creation for both Circle Four Farms and for Goridto's.

Goridto's has also confronted the "boxed convenience" versus whole carcass preference trade-off by offering "Hispanic style" vacuum packed primals, where the cuts of pork are customized to meet the specific market demand of clients. By 1999 about half of sales were as whole carcasses and half were as boxed primals.

Goridto's attributes its success to the fact that it is doing what other players won't do. Everything has been a solution to someone else's problem. Hispanic markets wanted whole carcasses, but had trouble sourcing them. Circle Four Farms tried to add value to its lighter weight hogs and Goridto's provided a market. Direct interaction with Hispanic retail stores allows them to continuously interact with customers giving them access to new ideas for forming new products for customers.

Goridto's is considering entering other regional Hispanic markets, as well as franchising small Mexican-American retail stores.

Resource

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