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Staff Paper

**Producer Cooperative Formation
Interest of Michigan Turkey Growers:
Survey Results**

by

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Dr. Allan Rahn & Dr. Laura Martin

Staff Paper #98-33

November 1998

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In response to a crisis in the Michigan turkey industry, the Michigan turkey industry task force was created. The task force's role was to develop and disseminate information regarding the Michigan turkey industry. Specifically, they were to:

- assess the supply and demand situation for turkey products
- be an objective information source and react to industry requests for information
- identify the strategies of major corporate players in the turkey industry, and
- evaluate Michigan's competitive advantages and disadvantages.

The crises in the Michigan turkey industry came to the surface in July 1997 when Bil Mar announced that the marketing contracts would be idled in January 1998 for ten out of state and five Michigan turkey growers.¹ On November 11th of 1997, Bil Mar announced that contracts set to in June 1998, would not be renewed. This action affected an additional 16 out of state producers and four Michigan turkey producers. In addition, Bil Mar announced that starting January 16, 1998, Bil Mar would discontinue the second shift which cut their kill rate from 34,000 to 20,000 birds per day (7.9 million to 4.3 million birds per year). The number of Bil Mar employees affected by this reduction in throughput was 110 permanent and 130 temporary

¹Bil Mar owned and operated the only turkey slaughtering facility in Michigan.

employees. In July 1998, it was announced that Bil Mar was going to eliminate all growing, slaughter, and boning activities at their Michigan plant by mid-January 1999.

The result of Bil Mar closing its slaughtering facility in Michigan was that the 28 Michigan producers would have no place to slaughter their turkeys. On August 10, 1998, the turkey producers requested that the task force assist them with a survey to determine what options were available based on the interest of the producers. A survey was constructed and administered within one week of their request.²

Construction of the Survey

The survey was based on a standard survey format that has been used for starting cooperatives.³ Three turkey producers along with the authors revised the survey to be applicable to the turkey producers of Michigan. The survey was devised to assess the needs of the producers and provide feedback to them concerning the future of their operations. The survey can be found in appendix A. The five areas of query were designed to determine:

- if the current and past turkey producers want to continue to produce turkeys.
- if the producers understand how cooperatives work.
- if the producers were willing to join and invest in a turkey producers cooperative.
- what type of cooperative would best serve the needs of the producers, and
- if the producers were interested in producing broilers if the turkey cooperative was not found to be feasible.

²The authors thank Jason Church from the USDA-Rural Development Department for his assistance with the development of the survey.

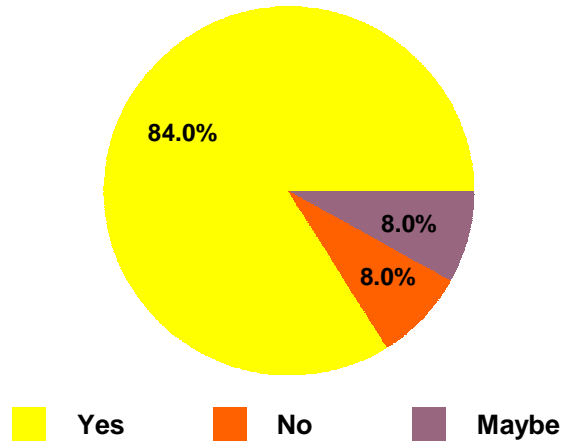
³Galen Rapp and Gerald Ely, "How to Start a Cooperative," USDA-Rural Business/Cooperative Service, Cooperative Information Report 7, Sept. 1996

Grower Survey Results

Thirty-five surveys were mailed out to individuals who have been known to produce turkeys in Michigan. Twenty-five surveys were returned which represented 28 of the 35 individuals.⁴ The primary question of the survey was to determine if the producers wanted to form a cooperative. Figure 1 shows that 84% of the producers want to continue to produce turkeys. This information was well received by the producers, hence, they have decided to investigate further the option of forming a cooperative.

Figure 1

Do you want to continue to produce turkeys?



⁴Several farms were owned and operated jointly.

The second most important question was, “Are you willing to invest in the cooperative and how much?” Figure 2 shows that 68% of the producers were willing to invest in the cooperative. An additional 12% were willing to invest given the “right conditions.” Figure 3 illustrates how much each producer was willing to invest. In terms of percentages:

- 8% were willing to invest 0 - \$35,000
- 36% were willing to invest \$35,001 - \$50,000
- 24% were willing to invest more than \$50,001
- 24% did not respond, and
- 8% were unsure.

Producers were interested in financing the cooperative in several ways, and one way was to pay a lump sum up-front. This approach was considered to be the traditional approach. Hence, the questionnaire pursued the idea of financing the cooperative using per unit retains and delayed producer payments. Figure 4 shows that 68% of the producers were willing to use the per unit retains approach to finance the cooperative and Figure 5 shows that 56% were in favor of a delayed producer payment. Figure 6 shows the number of days they were willing to delay their payments.

The next objective of the questionnaire was to determine if the producers knew how cooperatives work and would they follow those rules. Figure 7 illustrates that 72% of the producers understood how cooperatives work. A majority of the producers have prior experience with cooperatives:

- 75% of the producers have been members in a cooperative.
- 42% of the producers belong to more than one cooperative.

Hamilton Farm Bureau was the most common cooperative to which turkey producers belonged to. Eighty percent of the producers were willing to follow the guidelines set forth by the

cooperative as shown in figure 8. Eighty percent were also willing to sign a marketing agreement for a certain quantity of birds per year as shown in figure 9. Sixty-eight percent stated that they would sell all of their birds through the cooperative as shown in figure 10.

The type of cooperative to best serve the producers was the next issue that was addressed in the questionnaire. There were two types of cooperatives to consider for this project, a marketing and a producers' cooperative. A marketing cooperative collects the output from its members, adds value to the product, and identifies markets for the product. A producer cooperative concentrates on providing inputs to its members so that they can produce a high quality product and enjoy the savings from buying collectively. From the questionnaire, it was obvious that the main function of this contemplated cooperative was to replace the functions that Bil Mar had provided in terms of marketing the products. The survey respondents felt that the main function of the cooperative should be to provide marketing type functions for its members as shown in table 1. These main functions included: primary slaughter, deboning, live haul/load out, and product marketing and manufacturing.

The results from table 1 also indicated that we have at least two groups of producers, piece rate and marketing agreement contractors.⁵ This dichotomy still persists, that explains why several of the survey respondents want the cooperative to provide a wide range of inputs to its members. The solution to this problem may be that the primary function of the cooperative will be marketing, but at the same time, the cooperative may have to provide certain support to its

⁵A piece rate contractor is someone who essentially has all of their inputs provided for them by Bil Mar and in turn received a contractually agreed payment per wholesome pound of turkey meat. A marketing agreement contractor is someone who sourced their own inputs but received a guaranteed market and a fixed price per pound from Bil Mar.

producers in terms of providing inputs and information to encourage the production of a uniform product. One of the survey questions revealed that 32% of the producers still want to be a piece rate contract producer, 32% want to be a marketing agreement contractor, and 16% are interested in both.

Figure 11 shows the current production capacity of the survey respondents per year. The total number of turkeys was approximately four million birds per year. As indicated in the figure, the average size was approximately 200,000 birds per producer, however, the majority of producers were in the 70,000 level group. The majority of the producers also have other enterprises they were involved in as shown in Figure 12. Only six of the 25 farms exclusively produce turkeys. Table 2 illustrates the additional enterprises in which the other 19 turkey producers were involved. Crop and livestock production was the most common alternative enterprises for turkey producers.

The last function of the questionnaire was to investigate other alternatives for the producers. We asked the turkey producers if they wanted to consider broiler production if the feasibility study for turkeys was not favorable. In terms of percentages, figure 13 shows that 64 percent would consider producing broilers if the turkey business was not feasible. An additional 12% may be interested if the conditions were “right.”

Summary

In summary, a survey was designed and conducted to determine the interest and associated factors among current Michigan turkey growers in forming a producers cooperative that would permit them to continue their operations after Bil Mar ceases its slaughter and boning activities in mid-January 1999. The survey findings show that a significant majority of the

growers wanted to continue to produce turkeys and that 68% of them were willing to invest in the formation of a cooperative and an additional 12% will invest if the conditions are right. The most important result from this survey was that the producers were willing to invest their capital to form the cooperative. The survey results were presented to the producers on September 2, 1998. Given the results, the producers decided to begin the process of starting a cooperative. To date, the following tasks have been completed in forming the cooperative:

- elected a steering committee
- selected several advisors for the formation process
- hired a lawyer that specializes in cooperative
- composed their articles of incorporation
- raised capital for a feasibility study, and
- selected a firm to conduct a feasibility study for the project.

Figure 2. The percent of turkey producers who are willing to invest in the cooperative?

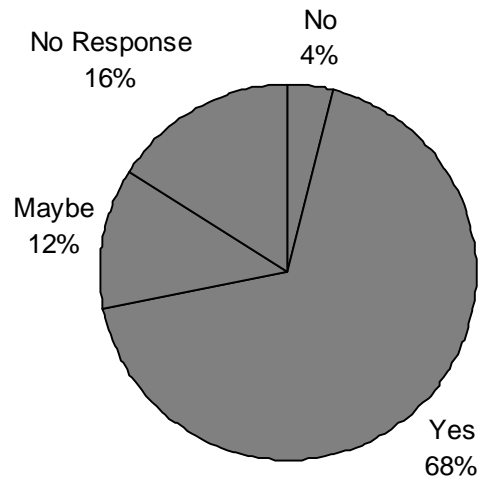


Figure 3. The number of producers willing to invest various amounts of money into the cooperative

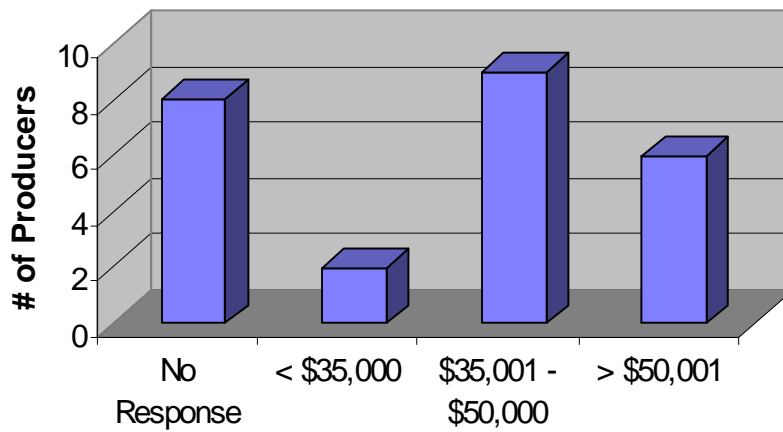


Figure 4. The percent of producers willing to finance the cooperative by per-unit-retains.

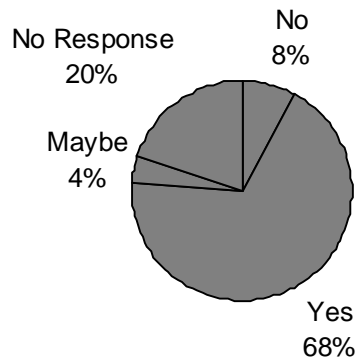


Figure 5. The percent of producers who are willing to finance the cooperative by using a delayed producer payment in lieu of a large initial cash equity investment.

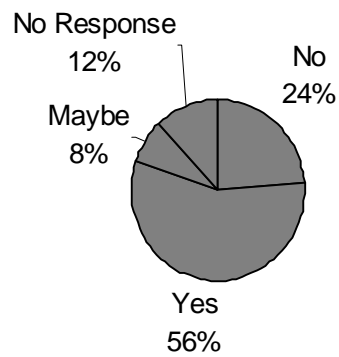


Figure 6. The number of days producers are willing to accept a delay in payment.

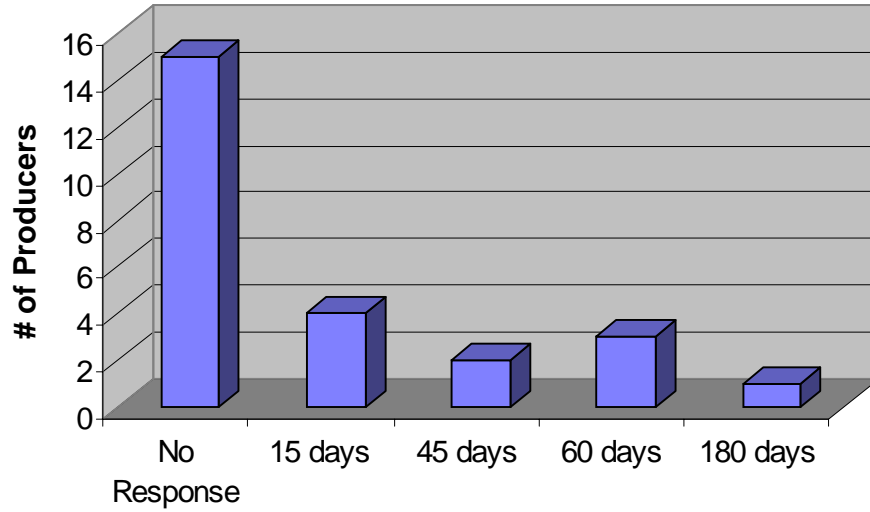


Figure 7. The percent of turkey producers who know how cooperatives work.

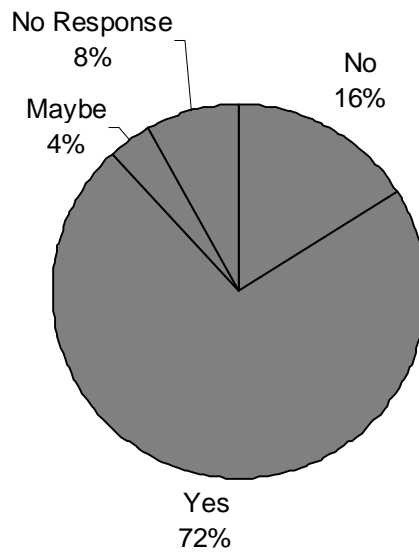


Figure 8. The percent of turkey producers who are willing to follow the guidelines and production methods set forth by the cooperative.

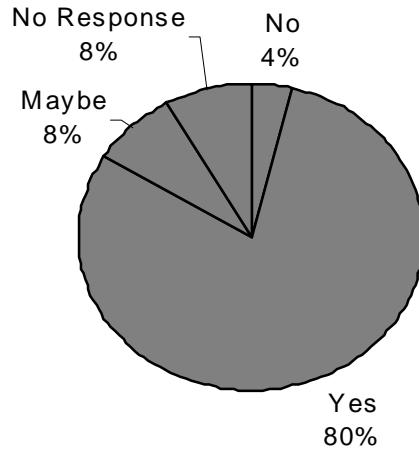


Figure 9. Percent of turkey producers who are willing to sign a marketing agreement for a certain quantity of their turkeys per year.

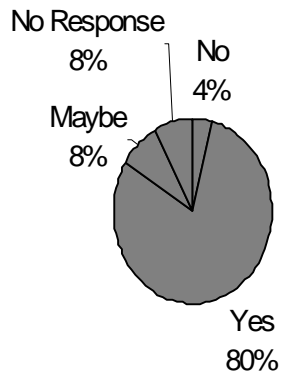


Figure 10. The percentage of turkeys producers are you willing to sell through the cooperative.

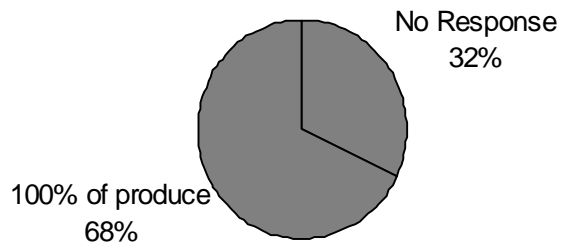


Figure 11. The number of turkey producers grouped by annual output.

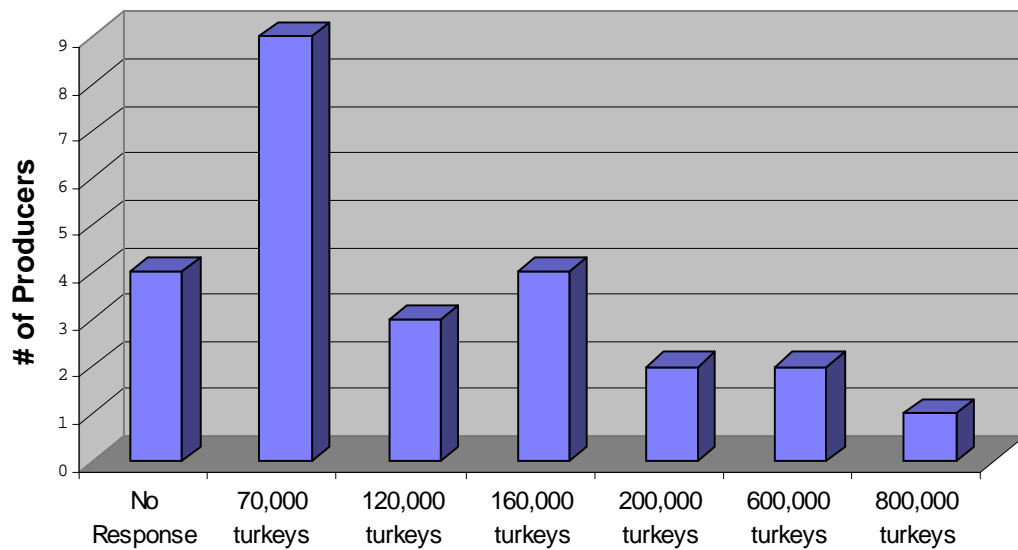


Figure 12. Turkey production as a percent of total business activity for each producer.

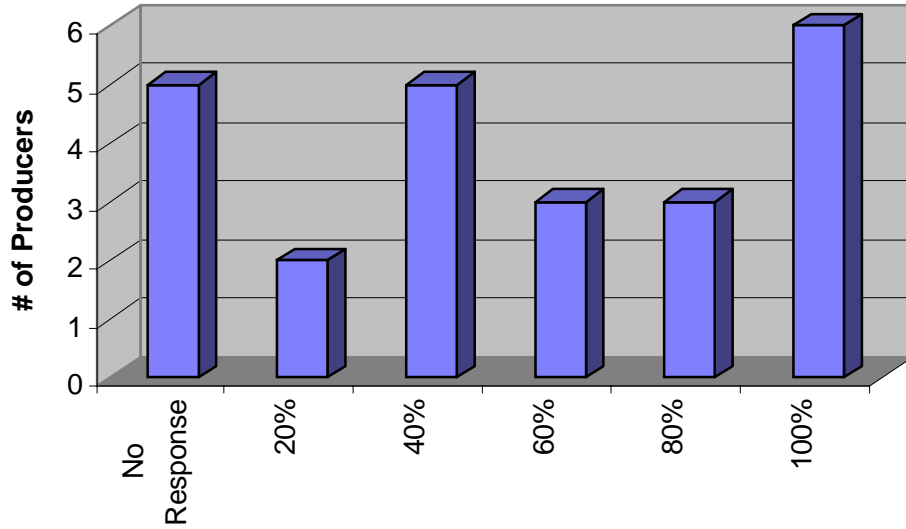


Figure 13. The number of turkey producers who are interested in producing broilers if the turkey cooperative is found to be not feasible.

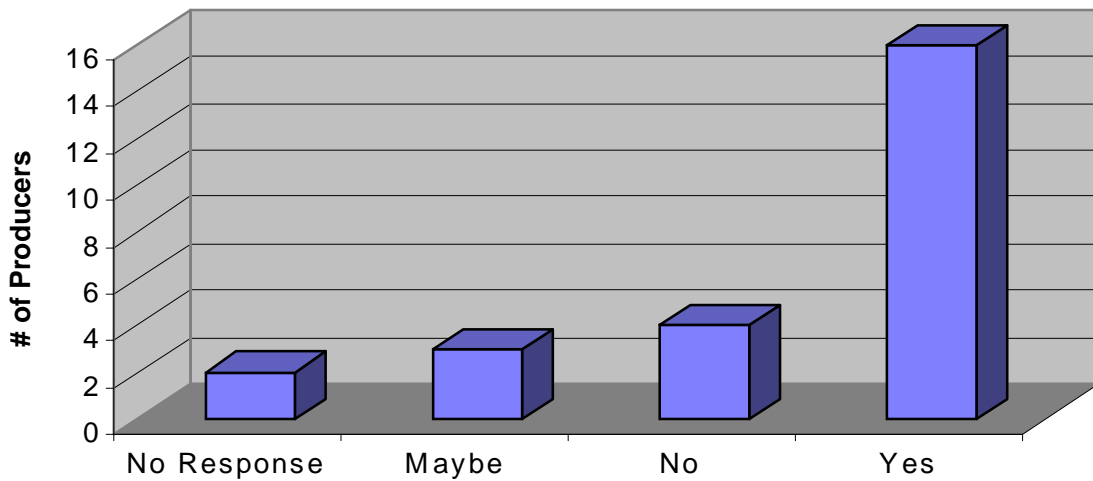


Table 1. Services and supplies that producers want from the cooperative.

Functions of the Cooperative	Number of producers out of 25
Primary Slaughter	21
Deboning	19
Live haul/Load Out	18
Prod. Marketing	18
Prod. Manuf.	14
Feed	12
Vaccines	12
Poults	11
Medicine	10
Wood Shavings	9
Line of Credit (live prod.)	8

Table 2. Various enterprises in which turkey producers were involved.	
Enterprise	Number of producers
Crops	10
Hogs	6
Steers	5
Nursery	4
Dairy Cows	3
Feed and Grain	2
Trucking	1
Litter	1

Appendix A

Turkey Growers Cooperative

This survey should take approximately 20 minutes to fill out. Your participation in this survey is completely voluntary, you may choose not to participate at any time or refuse to answer any question. All results will be treated with strict confidence and all participants will remain anonymous in any report of the research findings. Upon request and within these restrictions, results may be made available to the producers. You are indicating your voluntary agreement to participate by completing and returning this questionnaire.

1. Contact person for the farm _____
Address _____
Phone _____ Fax _____ Email _____
2. Farm location, County _____
- 3a. Are you interested in remaining in the turkey business? Yes___ No___
- 3b. If yes, would you prefer to be an independent or a contractor? _____
4. Do you know how cooperatives work? Yes___ No___
- 5A. Are you presently or have you previously been a member of a cooperative? Yes___ No___
- 5B. If yes, what is the name of the cooperative? _____
6. Are you willing to join and utilize the cooperative to market your output? Yes___ No___
7. What services or supplies should the cooperative provide to you? (Please check all items that apply to you.)
Feed___, Vaccines___, Medicine___, Wood Shavings___
Poults___, Live haul/Load out___, Primary Slaughter___
Deboning___ Product Manufacturing ___
Product Marketing___, Financing of live product (line of credit)___
8. Are you willing to follow the proposed cooperative's recommendations on production and harvesting practices? Yes___ No___
- 9A. Banks generally require cooperative owners to raise 20-50 percent of the needed capital. **Assuming the cooperative appears feasible**, are you willing to make an initial cash investment in it in proportion to your intended use in terms of volume? Yes___ No___

9B. What is the maximum amount of money you are willing to invest in the cooperative (Including a USDA-GUARANTEED loan to you to purchase stock equity in the cooperative as a member)?
_____ < \$35,000 _____ \$35,000 - \$50,000 _____ \$50,000 <

10. Per-unit retains are a capital investment that is deducted from members sales proceeds in proportion to the volume of products they market through the cooperative. Are you willing to finance the cooperative with per-unit retains? Yes___ No___

11A. A delayed producer payment is one way of reducing equity for operating capital. Are you willing to accept a delayed producer payment in lieu of a larger initial cash equity investment? Yes___ No___

11B. If yes, for how long? ___ days

12A. Are you willing to sign a marketing agreement to sell all or a fixed quantity of your turkeys through the proposed cooperative? Yes___ No___

12B. If yes, what percent? _____

13. What is the maximum number of turkeys you can produce a year? _____

14. Please list all other enterprises you are involved in. _____

15. What percent of your overall business activities does turkey production represent (\$ value sold)? _____

16. If the feasibility study shows that turkey production is not profitable, would you be interested in broiler production? Yes___ No___

Additional comments are welcome _____