Farmer Meat Packing Enterprises in the United States

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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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Summary

Cooperative ventures into the meat-packing business are not new. Records show that livestock producers either established or contributed much of the capital to organize 17 such plants between 1914 and 1920.

All these early attempts to slaughter and process livestock failed for a variety of reasons. Chief among them were lack of operating capital and member support, poor facilities, inadequate volume of livestock, inexperienced and unskilled management, keen competition, and unsatisfactory sales outlets.

From 1930 through 1955, 13 cooperative meat-packing plants began operations. Eight of these 13 also failed and for one or more of the same reasons. The remaining 5 of the 13 were still doing business at the beginning of 1957. They had avoided most mistakes made by those that failed.

The fact that most of the earlier cooperative plants failed does not mean every such venture is doomed. But it does mean groups of livestock producers, or even established cooperatives, should examine carefully all facets of the situation before making any final plans to set up a meat-packing business.

Among the questions that need to be answered are these:

Is there any real need for us to establish a meat-processing plant? Can we organize and operate it as a cooperative? Can we realize more for our livestock by continuing to market them as we have in the past?

Can we interest enough producers to assure a continuing flow of livestock to the plant in large enough volume to run it economically?

Is a suitable location available with adequate transportation facilities to handle incoming livestock and outgoing meat products?

What size plant do we need? What kind of equipment and how much?

What competition can we expect? Can we meet it and yet make our business a success?

How much money will we need before we can start? How much as operating capital? How can we get it?

Is experienced management available? Is it the kind that can obtain and hold member support?

With well-prepared products and well-planned promotion, can we find adequate markets?

Armed with favorable answers to these and similar questions, the producer group may decide it will be to their advantage to establish a new meat-packing plant.

The danger period is not over, however. Many new business enterprises operate for the first few years with little or no profit.

There are bright spots in the picture, however. The general climate in which a cooperative meat-processing plant would operate in 1957, or later, is vastly different from that of earlier days. Today many livestock producers have experience in running successful cooperative businesses. They already know most of the pitfalls that must be avoided if a new business is to be launched with any chance of succeeding.

Many changes have taken place that increase the chances of success in a meat-processing venture. Decentralization of the industry, economical truck transportation, improved refrigeration methods, growth of local locker plants, rapid expansion in frozen meats and consumer acceptance of them, and new methods of curing and smoking meats -- all these make establishment of a cooperative meat-packing plant much less a risk than it once was.

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Many farmers and farm groups continue to be interested in handling some livestock through cooperative meat-packing plants. This desire to own and operate their own slaughtering, processing, and merchandising facilities increases during periods of low livestock prices and small feeding margins, although interest is not confined to such times.

The spread between prices the livestock producer receives for his animals and prices ultimate consumers must pay for meat stimulates interest in cooperative processing. The farmer's custom of selling livestock and turning the title over to another limits his opportunity for increasing his share of the consumer's dollar.

In 1956 farmers received only about 52 percent of the consumer's meat dollar as compared with 73 percent in 1946. While this change is due in part to an increasing number of "built-in services" that require more labor and equipment, a considerable portion of it is due to increased margins and handling charges by processors, wholesalers, and retailers and to transportation costs.

Several groups of farmers and ranchers have recently shown strong interest in livestock processing. Farmer Cooperative Service has also received requests from established cooperatives to investigate possibilities for entering the meat-packing field. Recent inquiries have come to the Department of Agriculture from 14 States. Interest, therefore, has not been confined to any one section of the country.

The first cooperative meat-packing plants in this country had serious difficulties and many of them failed. Later ones had some measure of success. Knowledge of these earlier efforts -- mistakes made and what they cost in business failures -- should enable today's farmers and their organizations to enter the meat-packing field with less risk than prevailed in the past.

In addition to profiting from the experience of early cooperative meat processing efforts, present-day farmers themselves have had valuable experience that the earlier ones lacked. They have developed the ability to manage businesses handling large volumes of products. And they have learned that to succeed every business must have competent management and adequate financing, something most early farmer-owned meat-packing plants did not have.

Present interest in cooperative meat-processing needs to be accompanied by adequate research to determine the feasibility of entering this business. Plant location, availability of livestock, competition, outlets for products, type of operation, support by local farmers, and available transportation need to be studied closely before making a definite decision to open a plant. Analysis of these factors should enable farmers to avoid some pitfalls and trouble spots responsible for failures in the past. Knowledge of what has caused failure, as given in the pages following, will also help in initial planning for such a venture.

Note: This is a revision of the History of Cooperative and Farmer Owned Meat Packing Enterprises in the United States by L. B. Mann, Miscellaneous Report No. 72, May 1944.

Early Development, 1914-20

The most active period of organization and promotion of farmer packing plants was from 1914 to 1920. Most of this early development took place in Wisconsin, Minnesota, Illinois, Iowa, the Dakotas, and Michigan.

Reports indicate that 17 plants were organized. In addition, there were unconfirmed reports of 15 other plants but no reliable facts to substantiate them. Of the 17 plants known to have been established, 13 were set up as cooperatives and 4 as stock companies with farmers as principal stockholders. All were farmers' enterprises and most of the stock was sold to farmers. Appendix table 1 shows the number, location, and time of organization of these plants.

During the period from 1914 to 1918 there was much dissatisfaction among livestock producers with the buying practices of the large packers and the commission agencies at public markets. These large packing companies owned and controlled most of the important public stockyards where over 75 percent of the livestock was marketed. They also owned or dominated most of the market newspapers published at those stockyard centers and operated over 90 percent of the refrigerator cars and processed over 70 percent of the livestock slaughtered under Federal inspection.[1]

Dissatisfaction with marketing conditions, coupled with a desire to have packing plants located near producing areas, led farmers to organize both cooperative sales agencies and packing plants in an effort to obtain fairer prices for their livestock. This unrest and dissatisfaction made farmers susceptible to the promotional efforts of men who made a business of starting new enterprises. A number of promoters succeeded in starting several large packing plants for which they charged excessive commissions.

First Plant at LaCrosse, Wisc.

The first cooperative packing project of which there is any record was started at LaCrosse, Wis., in 1914. Because this was the first cooperative plant organized and because the same promoters were instrumental in starting other plants in Wisconsin, Illinois, and Minnesota, it seems desirable to outline rather fully what took place during its organization and operation.

In the beginning a stock company owned and operated this packing plant. When farmers took it over, the plant was 14 years old and some of the machinery 30 years old. The private company was in financial difficulty, owed a local bank $55,000, and had outstanding preferred stock of $37,000. To get out from under this "white elephant," the owners conceived the idea of floating a new company as a farmer cooperative. At the time, 1913, the only organized farm group in the State was the Wisconsin Society of Equity. Plant owners approached the president of this organization, along with some of the other officers, sold them on the idea, and offered to turn over the plant for $122,914.

A committee appointed to investigate the proposition accepted the seller's price without employing a competent packing house expert to appraise the plant. The annual membership meeting of the Equity in December 1913 approved the transaction and authorized the committee to incorporate the company for $250,000 and raise funds for purchase and operating capital.

The cooperative buyers employed a professional promoter and signed a contract guaranteeing him 15 percent commission on sale of stock.

Shares of stock at $100 each were sold to 2,136 farmers and $265,000 was raised. Of this amount $122,914 was paid to the old company for a plant worth less than $30,000, and the promoter received $37,815. The first year the company was forced to spend $11,314 for repairs in order to put the plant into operation.

Within 10 months after the plant started, 277,300 pounds of meat had spoiled, resulting in a loss of $40,000. By the end of 1915, the plant showed a loss of $71,602. Within less than 2 years

[1]These facts were brought out by Federal Trade Commission Report of 1918.

$243,645 of the farmers' capital had been used up. This left the cooperative with only about $21,000 as working capital.

The plant changed management in November 1915 but with an additional $11,154 spent for repairs and improvements, it lost $3,264 on its 1916 operations. It closed in December 1916. Of the $265,000 subscribed 3 years before, there was practically nothing left but a dilapidated building and equipment, much of it worthless.

A similar type of promotion was followed in organizing plants sponsored by the Equity at New Richmond, Wausau, and Madison, Wis.; Rockford, Ill.; Newport, Minn.; and Fargo, N. Dak. At all these points except Rockford, however, new plants were erected, some of them well constructed.

Other promoters followed much the same type of operation in organizing cooperative plants at Ottawa, Ill.; Faribault and Fergus Falls, Minn.; and Huron, S. Dak.; and in selling stock largely to farmers, in privately incorporated plants at Sioux City, Des Moines, and Marshalltown, Iowa; Grand Forks, N. Dak.; and Detroit, Mich. Appendix table 2 summarizes the type of promotion of these early enterprises.

Operating Problems and Reasons for Failure

Of the 13 cooperative plants organized from 1914 to 1920, all but 1 failed by 1923. Two of the organizations never opened their plants; 1 failed to even build or purchase a plant; 2 operated 1 year or less; 7 operated from 2 to 3 years; and 1, for 15 years. As to their ultimate disposition, 8 were purchased by or leased to major packing companies, 4 sold to smaller independent packers, and 1 to a cooperative packing organization, as shown in Appendix table 5. Several of the other plants were in such poor condition that they were of little value.

In fact, the conditions under which these first associations were established were such that no business concern could be expected to succeed. This is illustrated by the experience of such promotional undertakings as the Midland Packing Company of Sioux City, Iowa. It operated only 3 months and caused stockholders and other investors a loss of over $7 million. Another example was the Associated Packing Company of Des Moines, Iowa, which never even constructed a plant but caused a loss of $1 million to investors.

While it is difficult to determine from the information available all the contributing causes for failure, some of the more important ones follow. (See Appendix table 3 also.)

1. The one weakness most common to all the organizations was lack of sufficient operating capital and inability to obtain additional credit. A packing plant requires a large amount of working capital to operate at or near capacity, to build up inventories when prices of raw products are favorable, to provide a daily cash market for livestock, and to advance credit to its retail customers for a reasonable length of time. Experience shows that the capital required is about four times the weekly cost of live animals purchased.

The capital raised for a number of the early plants might have been sufficient if so much of it had not been absorbed by promoters or paid out in excessive valuation on worn-out plant facilities. In some instances, too, the organizations were unable to collect a substantial amount of the stock subscribed by farmers. Appendix table 4 shows the amount of capital raised and the proportions paid to promoters.

2. Another important factor contributing to the early failures was lack of farmer support. The cooperatives were created by outsiders rather than by livestock producers themselves. Expectation of immediate profits and dividends which did not materialize discouraged many of the members.

3. Inexperienced and consequently inefficient management -- even dishonest in some cases -- appears to have been another cause contributing to failure in many of the organizations. This was manifest in a number of ways -- by overpayment for livestock, spoilage of meat, failure to keep accurate records, inability to collect outstanding accounts and notes, extravagance and leaks, and lack of aggressiveness.

4. Lack of confidence in the management on the part of farmer-patrons was another reason for failure of several plants.

5. Unsatisfactory sales outlets, keen competition from other packers, and low prices of products caused heavy losses in some instances. Several plants were forced to sell the bulk of their volume in distant markets. This meant that they had to depend upon outside brokers or wholesalers. Inability to obtain refrigerator cars was another handicap.

6. Irregular and inadequate supplies of desirable livestock caused losses and operating difficulties at several plants. Poor locations with respect to year-round supplies also caused trouble in some areas. Agreements to purchase all livestock offered by patrons at prices equal to or better than those offered by competitors caused heavy losses to several plants.

7. Where old worn-out plants and equipment were purchased at high prices, it was impossible to operate economically or efficiently. Additional money was required to put these plants in operating condition.

8. Unfavorable freight rates for dressed meat was mentioned in the case of one plant as one of the reasons for failure to operate successfully.

In summarizing these early attempts at cooperative meat packing, it should be pointed out that several of the plants never operated, others ran for just a few months, and only one for more than 3 years.

Later Cooperative Processing Plants, 1930-55

Following the disastrous experiences of the early 1920's, few attempts were made to organize cooperative meat packing and slaughtering plants until 1930. Producers during most of this time directed their efforts toward organization and operation of cooperative livestock shipping and marketing organizations and made substantial progress along these lines.

Thirteen cooperative slaughtering or packing plants were in operation sometime between 1930 and 1955, as shown in Appendix table 6. Only two of these plants, one at Caldwell and one at Twin Falls, Idaho, had the earmarks of promotional ventures. One of these organizations failed after operating about 6 months and the other did not get by the organization stage. One plant was organized at Los Angeles, Calif., in the mid-1920's by about 20 large ranchmen. It operated for about 3 years. Five of the 12 were still in operation at the beginning of 1957. They will be discussed later in this report.

Of these 13 cooperative projects only 3 were in the medium-size operations class; most of the others were local slaughtering establishments. Two plants set up in the 1930's were operated by successful cooperatives in California and Ohio and one by a small group of farmers and ranchmen in Nevada. Another came through reorganization as a cooperative of a privately owned Michigan plant in which farmers had invested a large part of the capital stock (page 6).

Plants no Longer Operating

Following is an account of the eight meat-packing plants started in the 1930-55 period that subsequently went out of business.

Milk Producers Association
of Central California

The first of the cooperative organizations started in the period 1930-55 was established in 1930 by the Milk Producers Association of Central California, at Modesto. The purpose was to obtain more satisfactory prices for members' veal calves and cull dairy cows. It also processed limited numbers of hogs and lambs. The association first leased a small packing plant in Modesto but later contracted with a private plant to have its stock slaughtered on a custom basis.

The association employed men to receive, mark, weigh, grade, and follow the stock through the packing plant. It appraised and graded all carcasses on the rails and made returns to farmers on the basis of these appraisals. It paid no money until the stock was slaughtered and sold. The association also maintained its own salesmen who sold meat at the plant to local retailers or consigned some to San Francisco.

This operation proved satisfactory and increased members' returns. Operations ceased in 1942, however, because the local slaughtering plant closed down and the association was unable to make other satisfactory arrangements. Farmer members lost no money.

Idaho Meat Producers, Inc.

This Caldwell, Idaho, plant was organized in 1932, through the efforts of a Chicago packing house supply engineer, who interested local businessmen and a few prominent farmers in the project. Together they promoted it as a cooperative enterprise.

The organizers experienced difficulty in raising funds and in March 1933 applied to the Federal Farm Board for a loan of $160,000. This application was rejected because the proposal did not appear practical or have sufficient farmer interest. After a considerable length of time, $65,000 worth of stock was sold and the organization borrowed $40,000 from private sources. The association built a plant costing approximately $100,000 so practically nothing was left for working capital. The association began operations in January 1938 under this handicap.

The plant was built primarily to slaughter livestock and sell carcasses at wholesale to the Pacific Coast cities of San Francisco and Portland. Sales outlets for the dressed products were unsatisfactory, and the plant had to pay a premium for livestock delivered. The association met with some bad losses, and closed the plant in June 1938.

The plant property was finally sold to a San Francisco meat broker but with a 100-percent loss to investors. The purchaser, who had established sales outlets, is reported to have made substantial profits every year since taking over the plant. Furthermore, it is reported that this operator has added competition for livestock in the plant's trade territory and has been responsible for generally better prices to farmers for their livestock.

Las Vegas Meat and Provision Company

Sixty farmers and ranchmen started another small cooperative plant at Las Vegas, Nev., in 1935 with the help of the Federal Extension Service. They purchased an old packing-plant building at moderate cost. Their reason for organizing was to supply a better outlet for livestock and to meet the local demand for meat from Las Vegas, Boulder City, and numerous mining camps.

This plant's operations were handicapped by inadequate operating capital and by seasonal shortages of the needed kinds of stock and it was forced to close. Its entire output was sold in the local trade area.

Kentucky Independent Packing Company

Another enterprise, organized by livestock auction market interests and financed through the sale of stock to farmers and others, was the Kentucky Independent Packing Company, Lexington. This group built a modern plant costing $125,000 and started operations in July 1936. The main purpose was to inject additional competition for lambs and to strengthen prices.

The plant operated for about 2 years but then failed largely because in bolstering prices it paid more for livestock than it could afford to assure a profitable operation. The plant was leased to one of the large packers for a 5-year term and finally sold to this company in 1943.

Oregon Livestock Cooperative

In 1944, a group of farmers in northwest Oregon became interested in a meat-packing plant as a market for livestock in the area. They constructed a small plant and started business in June 1949. It operated on a limited basis for a little more than a year. The weekly volume handled was about $35,000. The organization was undercapitalized and management was never able to make the plant a successful operation. A court order placed the plant in a friendly receivership forced by a few creditors whose accounts were not paid on time.

Farmer members lost about $80,000 which had been paid in for stock. Some 670 members indicated they wanted to reorganize and put the plant in operation again, but they were unable to make the proper financial arrangements. The plant was ultimately taken over by a packer, who is reported to be operating on a successful basis.

Southwest Washington Livestock Marketing Association

This association planned and constructed a small slaughter plant at Centralia, Wash. The association was originally set up to sell livestock, but some of the membership decided they should enter the processing field.

It eventually constructed a slaughtering plant that operated for a short time. The building was partially completed in 1947 but final work was delayed for 2 years due to lack of funds. Livestock slaughter started in 1949 and continued until 1950 on a limited basis. The volume handled was so small that the association was unable to meet necessary operating and overhead expenses.

About 250 farmer members signed agreements to deliver all the meat animals they had for sale but did not follow through. It is understood that this group also furnished about $100,000 of the capital used to construct the building. The association was underfinanced at all times and this fact hampered its operations.

The operating plans for this slaughtering plant included no provisions for processing. All livestock was to be killed and the meat sold in carcass form. Custom slaughter was also provided as a service to members and others who wished to use this service.

The association proposed to receive livestock on consignment for slaughter and pay for the animals on a carcass-grade-and-weight basis when the meat was sold. Farmers requesting an advance on consignment received a substantial portion of the total value of the livestock with the remainder paid when the carcass was sold. However, producers did not provide sufficient working capital or volume to make the operation successful.

Since the plant was unable to operate on a profitable basis, it went through bankruptcy. This caused considerable loss to the farmers who had contributed capital.

McLean County Cold Storage

In 1948 the McLean County Cold Storage, Bloomington, Ill., a cooperative operating two frozen food locker plants, purchased a beef slaughtering plant located at Normal, Ill., for $90,000. It purchased the plant to process and merchandise as well as to provide custom slaughtering facilities for locker and home freezer patrons. Due to lack of operating capital and inability to develop a merchandising program, the plant discontinued operations after a few months and was sold to a trucking company for a warehouse.

Detroit Packing Company

The Detroit Packing Company, Detroit, Mich., was in operation longer than any of those already mentioned. It was organized in 1920 as a stock corporation by a group of Detroit promoters. They sold stock totaling over $2 million to some 2,500 investors, 80 percent of them farmers. An old brewery building was purchased and converted into a packing plant. As payment for promoting the enterprise, one family is reported to have received $100,000 worth of stock in the company, thereby assuming management control.

During the years 1920 to 1932, the company handled a substantial volume of business but because of internal weaknesses operated mostly at a loss. In 1932 some of its creditors threw the company into receivership.

In the fall of 1933, a group of prominent Michigan farmers, company stockholders, and farm organization leaders came to the Farm Credit Administration in Washington to enlist its support in helping them convert the plant to a cooperative. This was granted and the company was reorganized as a cooperative.

Problems Appear - During its lifetime as a cooperative, this organization experienced many of the problems and operating difficulties that caused some of the early failures in this field. When purchased, the plant was badly run down. It was not an efficient operating unit and for years lacked capable management. Large amounts of money were spent to replace worn-out equipment in an effort to partially modernize the plant.

The association had to revamp its sales organization and improve the quality of its products to meet competition. During much of the time the plant, like many others, had labor difficulties. From the start the company lacked operating capital. Collections were slow, and during the early years declining markets caused considerable losses in inventory values. All these things made it difficult to show satisfactory progress.

Capital Retains Help - The company borrowed most of the original operating capital of the reorganized plant from the Farm Credit Administration. Farmer stockholders of the old plant furnished very little new money. To correct this situation and to provide additional working capital, the board of directors adopted a program of deducting a retain on each head of livestock delivered by its patrons. To put this plan into effect called for an aggressive educational and membership drive. Under the stimulus of such a drive, the association's membership increased to some 11,000. The capital retain plan did bring in substantial amounts of new capital.

Some Good Years - During World War II and the years immediately following (1943-47), the plant showed its best margins. Accumulated savings in this period were more than sufficient to wipe out all losses suffered in other years, repay with interest all loans from the Farm Credit Administration, retire outstanding preferred stock, and pay for plant improvements. In addition the association accumulated a sizable amount of working capital.

Following 1947, it experienced large operating losses. These brought about a decision to discontinue operations in 1954. The board of directors agreed (after a "friendly" court decision) to turn the plant over to a private company for operation, and the cooperative ceased to function as such.

In its 21 years of operation Detroit

Detroit Packing Company, Detroit, Mich., established in 1920 and reorganized as a farmer cooperative in 1933, ceased operations as a cooperative in 1954.

Packing Company slaughtered and processed over $100 million worth of livestock for farmers and retired $108,000 in preferred stock representing a residue from investments of farmers in the original company. It repaid all borrowed money in full before the cooperative ceased operation. It paid for all improvements, such as new refrigeration and processing equipment, from operating savings.

Assets of the cooperative at the time of its closing totaled $706,000 book value covering buildings, equipment, trucks, and so forth. The capital accumulated from retains contributed by members was $342,587. In addition members held about $12,000 in common stock which represented their voting rights. The final total of farmers' capital invested in the plant amounted to a loss of $354,534 composed of retains and common stock plus any equity in plant and equipment. The new owners issued preferred stock in the amount of $342,587 to holders of the retain accounts. This action, however, wiped out the investments of the common stockholders and any other equity represented in plant and equipment. In turn, the new operators assumed the liabilities of the Detroit Packing Company consisting of accounts payable on supplies.

The name Detroit Packing Company was retained by the new firm which began operation shortly after taking over from the cooperative in 1955. The new management failed, however, within a few months, and the plant was closed through bankruptcy court leaving no recourse to farmers holding preferred stock to recoup any of their investment.

Reasons for Failure - Detroit Packing Company failed as a cooperative venture for a variety of reasons.

Originally the plant had Federal inspection and shipped meat products to other States. This was not a profitable operation at that time. Later the plant dropped Federal inspection when it became necessary to make large expenditures to retain this inspection. Without Federal inspection meat products could be sold only in Michigan.

The competitive situation in Detroit, along with labor difficulties and other factors, contributed to the later failure of the cooperative. It is interesting to note that numerous other packers have failed to operate successfully in Detroit and no longer maintain any slaughtering and processing operations in the area.

A successful campaign to sell meat from this plant far beyond metropolitan Detroit was never achieved, although with city inspection its meat could have been sold anywhere in the State.

Detroit Packing Company was the only cooperative packing plant on record that did not sell stock to farmers to finance a large share of its initial cost. The required common stock of $2 a share provided membership and voting rights but only a small amount of capital.

When the cooperative was formed to take over the Detroit Packing Company in 1933, it was agreed that the former board of directors would serve until the loan was repaid to the Bank for Cooperatives. Suggestions of advisers that broader representation was needed were ignored. Proxy voting rights enabled management to control the elections, although members in attendance at the annual meetings often could have selected new board members.

Little interest was shown by members because they interpreted all capital contributions as marketing charges, rather than investments leading to ownership. When the going was difficult from low margins and other problems, few members were willing to supply financial support. Management was left with no choice but to borrow from banks to obtain operating capital whenever margins were insufficient to cover such expense.

Another problem was that patrons and stockholders failed to supply the plant with its major livestock requirements. To procure needed supplies it was necessary for the plant to buy livestock outside of its membership.

On the credit side, this cooperative made a contribution in furthering research of interest to all livestock marketing cooperatives. The plant afforded a place to conduct certain early research in costs of operation and in yields of livestock processed. It provided valuable information on the relative grades and yields of various classes of livestock. For years the cooperative encouraged production and marketing of meat-type hogs by paying a premium for hogs that would grade in this category.

Plants Now Operating

Following is a discussion of the five cooperative meat-packing businesses organized in the 1930-55 period that are still in operation.

These plants vary in size, but all are small in comparison with plants of the large national packers. They are designed to serve as a partial market for locally produced livestock and to supply meat products to limited areas.

MFA Packing Company

Missouri Farmers Association, Springfield, Mo., entered the cooperative meat-packing field in 1946, through purchase for about $200,000 of the Springfield Packing Company which had started in 1933. The old plant, established by a group who sold stock to farmers, was forced to close due to dissatisfaction of stockholders, although it had made a profit on its investment while it operated.

Purchase of the plant was originally made through sale of interest bearing certificates of indebtedness to farmers in the area. After operating 10 months as a separate entity, it became affiliated with the Missouri Farmers Association as its packing division. This association had years of successful operations in the dairy and poultry processing fields as well as operating a farm supply division. This enabled the overall cooperative to render such services as accounting, fund raising, insurance, public relations, and other assistance at greatly reduced cost to the meat-packing plant.

The packing plant had been allowed to become somewhat rundown. As soon as MFA obtained the property, it made plans to modernize and revamp the building to permit handling larger volume on a more efficient basis.

The additions and remodeling were hampered immediately following World War II by lack of materials, although building proceeded whenever supplies were available. Facilities have been improved and enlarged and the plant is now a modern processing unit. The group has followed a continuous program of expansion through the decade of its operation with the facilities now worth approximately $1 million.

MFA meat sales at this plant reached about $4.5 million in 1955. The management has followed an active program of improving facilities and adding new equipment, which should permit greater volume to be handled by this cooperative. It has still further plans to enlarge

This modern meat-processing plant, operated by Missouri Farmers Association, Inc., Springfield, Mo., sold livestock products valued at almost $4.5 million for Missouri farmers in 1955.

the plant to handle more processed and prepackaged meat products. The plant operates under State inspection, although it is designed to meet the requirements for Federal meat inspection.

The MFA plant sells all its products in southern and central Missouri with gradual extension of the sales territory going on. This plant has made substantial savings in each year of operation. One of the reasons for this success is probably the policy of management to sell its products above cost of production, regardless of the prices and practices of competition.

The practice followed in buying livestock has been to purchase the total requirements locally as far as possible. On a few occasions it has been necessary to obtain certain classes and grades of cattle from one of the larger markets. In addition to meat packing, MFA operates a rendering plant which processes dead stock from farmers as well as inedible by-products of the packinghouse. This has furnished a source of supply of meat scraps and tankage for farmers in the area.

Shen-Valley Meat Packers, Inc.

This cooperative, with headquarters at Timberville, Va., resulted from a group of Virginia farmers agreeing in 1945 to form a cooperative to slaughter and process locally produced livestock. The initial plan was to construct a small plant to handle the livestock from farmers in the few counties in or near the Shenandoah Valley. After considerable study, the group decided to construct a larger plant serving livestock producers in about 25 counties of Virginia and eastern West Virginia.

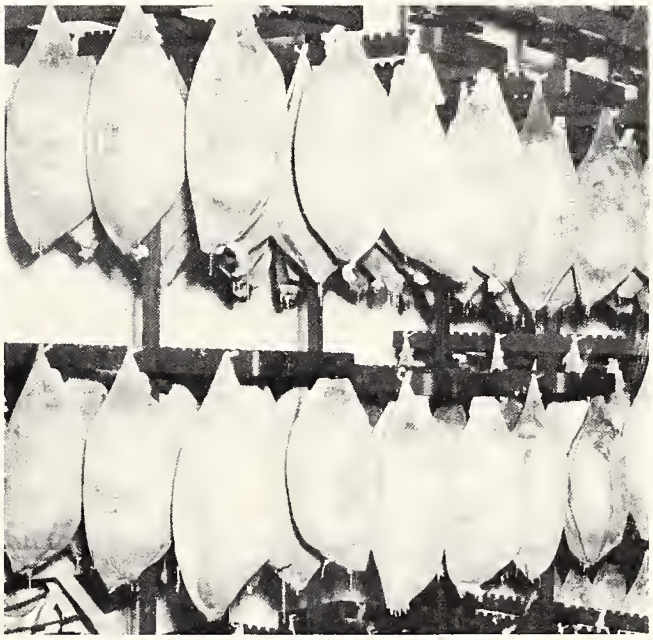
Lack of building materials, the time required for securing approval from Government agencies, and slowness in raising the necessary capital caused many delays in building the plant. Beginning construction was held up until late 1947.

Farmers in the area showed wide interest. Over 1,600 livestock producers contributed capital to help start this venture. Local farmers supplied about $1 million to build and equip their plant.

Raising capital was a problem, however, because of rapidly rising costs in the building and equipment fields. It was necessary to contact farmers three times to meet the increased costs. Livestock farmers supplied the first capital voluntarily, but eventually it became necessary to hire professional help to assist in the fund raising campaign. A sufficient amount was finally obtained through the sale of preferred and common stock and

Shen-Valley Meat Packers, Inc., Timberville, Va., whose Rockingham products are well known, demonstrates that a cooperative meat-packing plant can survive and prosper.

Beef, hams, bacon, and many other meat products reach consumers under the Rockingham label of Shen-Valley Meat Packers, Inc.



borrowings from the Baltimore Bank for Cooperatives.

The plant opened for business in late 1949. Still more operating capital soon became necessary to expand slaughter and processing and to open up sales outlets. In 1950, members signed about $275,000 worth of convertible notes to provide operating funds. This enabled the cooperative to increase its borrowings and provide the capital to carry on.

Initial operations showed substantial deficits as had been anticipated. The plant had to be broken in slowly because the entire labor force, with the exception of a few key men, had to be recruited and trained from among local people. Sales outlets for the processed products had to be developed. All these things were time consuming and quite costly to the plant.

Output of meat and meat products from Shen-Valley has increased from $3.5 million in 1950 to over $5.5 million in 1955 despite the generally lower level of all meat prices. The slaughter of cattle was 202 percent larger and the hog kill was 34 percent higher for the same period. An addition housing a freezer, cold storage space, and a garage has been added. A number of changes in operating techniques have been made to increase output, and market outlets have been developed to cover a wide territory.

Since the plant operates under Federal Meat Inspection regulations, its products can be sold wherever they bring the best prices. The presence of this plant has narrowed price differentials between the local territory and livestock markets in or adjacent to the area. The cooperative has been able to show savings in recent years.

Prairie Packing Company, (Marion, Ill.)

The Prairie Packing Company was organized as a frozen food locker plant and began operations in 1947. It was built to slaughter livestock and to process and store food for local farmers on a custom basis.

After a few months the cooperative decided to enter the merchandising field and sell meat products on a wholesale basis. The slaughter room was large enough to handle much more than the volume supplied by the customers of the locker plant so there was greater capacity available to process additional livestock. This added capacity was used to slaughter livestock purchased and meat sold to retail outlets.

Later the management purchased sausage manufacturing equipment and put it into operation to supply sausage items for sale.[2] With this addition the plant was able to supply both fresh and processed meats to retail outlets. The plant first purchased small equipment to make sausage products. After a few months operation it changed to larger equipment, added extra smoke-houses, and increased

Top - Organized by farmers as a cooperative locker plant in 1947, Prairie Packing Company, Marion, Ill., in addition now successfully processes and sells sausage. Bottom - Prairie Packing Company, Marion, Ill., had to renovate and expand facilities before expanding operations.

production to supply the greater demand for sausage output.

In 1956 Prairie Packing Company revamped the layout of its plant to increase production of meat products. This involved adding larger processing facilities and increasing delivery equipment. The company has also increased its sales outlets to cover a larger territory.

The plant employs salesmen to call on retail stores in the area and has obtained a considerable volume of business. Sales have reached over $500,000 annually, with a much greater potential in the present plant.

[2] Randell, C. G., Producing and Merchandising Sausage in Small Plants, FCS Circular 5, 1953. Farmer Cooperative Service, U. S. Depart. of Agric.

Local farmers have invested over $115,000 in these facilities. The rest of the capital was borrowed from the St. Louis Bank for Cooperatives.

The plant still provides its services to patrons for slaughtering animals and processing them for locker storage and home freezers, although this business represents only a limited portion of the total.

It is probable that other small plants can follow a somewhat similar pattern and eventually develop into larger meat-processing units.

Prairie Packing Company, Inc., of Carlinville, Ill.

This plant began operation in 1948 under the name Macoupin Locker Service. Its primary purpose was to provide a central custom slaughtering and processing facility for five branch plants of a frozen food locker cooperative. Farmers interested in the operation also hoped to expand it to process and merchandise locally produced livestock which would be sold to retailers in the area.

An addition to the plant in 1950 provided poultry dressing facilities to kill and process locally grown poultry. High-quality broilers are merchandised to local retailers and have gained good acceptance.

During its first 8 years, the plant provided only custom slaughtering and processing services for locker patrons. In 1956, the management decided to expand processing and merchandising of livestock products. Personnel experienced in the meat-processing field were hired to operate the plant. Additional processing equipment was installed to handle greater volume and to manufacture sausage.

These changes provided the plant an opportunity to distribute its products more widely in merchandising channels. They also brought about the change in name from Macoupin Locker Service to Prairie Packing Company, Inc., of Carlinville, Ill.

The name was changed because of the already established Prairie Packing Company of Marion, Ill. Management of the cooperative at Carlinville believed there were definite advantages in using the same name and brands as those of the other plant in ordering supplies and selling the different products manufactured at either of the two plants.

Farmers of the area have about $135,000 invested in this central slaughtering and processing plant. The plant has more than enough processing space and freezing capacity to handle present production and has moved into production of several of the new prepared frozen

This cooperative locker plant, in addition to processing and storing its members' food products, recently became a meat-packing plant and changed its name to Prairie Packing Company, Inc., of Carlinville, Ill.

meat items. This capacity will allow it to expand further in this direction.

The New Cooperative Company

Another type of cooperative packing operation which differs somewhat from any of the organizations so far discussed is the plant operated by The New Cooperative Company, Inc., of Dillonvale, Ohio, a consumer-owned store association.

The plant was built in 1936 at a cost of $17,500. The original capital was supplied by the consumer group out of its surplus funds.

Sponsors of this packing plant described its purpose as that of supplying stores with a steady flow of meat products and giving the farmer members an outlet for their livestock. At the time farmers found it difficult to obtain suitable outlets for their cattle and hogs. The plant provided a medium of exchange for the farmer to buy things at his store which he did not produce. This, in turn, gave the farmer and other members control of both the packing plant where he sold his livestock and the store where he purchased his needs.

The plant sells its entire output through stores of the New Cooperative Company plus a few direct sales to members. Although it has been enlarged since 1936, it is not large enough to supply all needs of the stores so a portion of the meat products they sell is obtained from other processors. In this way the operation does not compete with other packers for sales outlets. This type of operation has proven satisfactory.

The Role of Frozen-Food Locker Plants

On January 1, 1955, there were 10,553 locker plants in operation in the United States and approximately one-third of these operated slaughter facilities.[3] While nearly three-fourths of locker-plant slaughter is done on a custom basis, increasing quantities of livestock are slaughtered for commercial sale to home-freezer users, retail stores, and institutions.

During 1954, these plants slaughtered over 2.8 million head of livestock consisting mostly of cattle and hogs. Locker plants reported sales in excess of $275 million of food, with meat making up the largest proportion.

The locker plant, therefore, deserves consideration in the future development of cooperative meat processing. Its specialized local slaughter, processing, freezing, storing, and merchandising of meats has made the locker plant suitable as a source of supply to local outlets purchasing in quantities.

Farmers, through their own local processing plants, have an opportunity to improve, develop, and expand these local market outlets, and at the same time gain valuable experience in processing and merchandising livestock products. These plants could process and market locally grown livestock products and by so doing reduce transportation, handling, storing, and merchandising costs.

Excess products from local plants could be sold through regional sales organizations, which would permit farmers to merchandise their products under brand names. Extension of such development would encourage production more closely in line with customer demand -- for example, meat-type hogs -- as farmers could readily observe the kind of carcasses their animals produced.

Future Possibilities and Need for Cooperative Meat Processing

Farmers who consider entering the cooperative meat-packing field should weigh carefully their chances for success. Is there any real need for additional plants or any advantage to farmers in moving further into processing and marketing operations? Is it possible for

Wilkins, P. C., Mann, L. B., and Miner, B. D. Frozen Food Lockers -- Highlights of a Survey. FCS Circular 17, 1956. Farmer Cooperative Service, U. S. Depart. of Agric.

future cooperative businesses to avoid the unsound promotional activities and other mistakes from which earlier meat-packing plants suffered?

Many changes have taken place in the last 35 years that make it possible for small plants to operate more successfully than those started before 1920. Among the most important are development of economical truck transportation and improved refrigeration methods, rapid expansion in processing and sale of frozen meats, widespread use of consumer-size prepackaged meats, and new quick methods for curing and smoking meats. General adoption of Government grading of fresh meats also helps make it possible for smaller packers to cope with competition from large companies with widely advertised brands.

Unlike the situation preceding 1920, today's farmers have strong, well-organized, and more soundly financed cooperative marketing and purchasing associations serving all sections of the country. Their gross volume of business in 1955 exceeded $12.4 billion. Livestock producers alone marketed $1.4 billion worth of live animals through their cooperatives. This volume has enabled farmers to obtain business experience in marketing and processing and to compete successfully in the market place. Financing of cooperatives, both by members and through banks for cooperatives, is on a much sounder basis than in the 1920's.

The meat-packing industry is becoming more decentralized. This country now has some 12,000 slaughter plants with over 500 operating under Federal meat inspection. The plants that operate under Federal inspection can sell their products anywhere in the United States; the others serve local territories on an intrastate basis. The idea of farmers establishing processing plants near the source of supply, rather than shipping livestock to distant markets, appears sound in the light of general decentralization of the packing industry.

With current decentralization and introduction of specialties, the cooperative

One of the services a small meat-packing plant can offer is preparation of beef in consumer-size cuts.

plant should not overlook other sources of sideline revenue. The local locker plant, for example, can tie in with processing programs of other meat-processing plants or can expand meat processing and merchandising of locally slaughtered livestock.

It may be relatively easy for a group of farmers to develop enough interest to start a cooperative meat-packing plant, but it is another matter to obtain sufficient volume, sound financing and skillful management to insure its survival. Farmers want adequate markets and fair prices for their livestock. Nothing less will satisfy them and merit their support.

Successful cooperative processing plants could supplement, rather than replace or compete with cooperative livestock marketing agencies. They could supply "competitive yardsticks" through more accurately determining fair prices for live animals based on the sale of dressed, graded products. They could also offer a means of lowering marketing and distribution costs in some areas through savings in transportation and handling charges.

In the past, cooperative meat-packing plants have found difficulty in obtaining adequate financing through voluntary member subscriptions. One means of avoiding this problem would be for several established cooperatives to join in offering financial support.

This plan would also have the advantage of drawing upon the pooled experience and management know-how of the older organizations. Such a joint body could consider setting up several plants under the same overhead management. This joint supervision should bring about additional economies in engineering, public relations, processing techniques, product testing, merchandising, and accounting.

A further aid to efficient plant operation might be some type of controlled cooperative trucking and marketing services to facilitate a more even flow of livestock to the plant.

Before making a final decision on setting up a processing plant, those who are interested in it should give careful consideration to sources of livestock supply, type and size of plant, buildings and equipment required, sales outlets and available transportation facilities. Really strong producer interest and ample financial support should be clearly evident in advance. The plant itself should be the most modern one available. Old buildings are expensive to maintain, even though they have been remodeled.

To successfully enter this field may call for organizing and operating cooperatives in many localities along joint lines of activity rather than on the basis of a single commodity or service. Before going into the meat processing business, it should be recognized that it is highly competitive, that margins are not wide, and that at least 50 percent of the product is normally handled in fresh form.

Most new business enterprises operate for the first few years with little or no profit. Producers should expect no more from a cooperative meat-packing plant. However, a cooperative meat-packing plant has a good chance to survive and develop into a successful business if it has been established on the basis of findings from a survey of all factors involved and if it has loyal support from its members.

Appendix Table 1. - *Capitalization, date of organization, number of members, and date of suspended operations for farmer meat-packing plants, 1914-20*

Name	Location	Capitalization	Date organized	Began operations	Number of members	Date suspended operations or went into receivership
		Cooperative Packing Plants				
Farmers' Coop. Packing Co.	La Crosse, Wisc.	$265,000	Apr. 1914	June 1914	2,136	Dec. 1916
Farmers' Coop. Packing Co.	Wausau, Wisc.	250,000	Late 1914	Jan. 1916	2,000	Apr. 1919
Farmers' Coop. Packing Co.	Rockford, Ill.	400,000	Early 1916	Dec. 1916	-	1919
Brittain Coop. Packing Co.	Marshalltown, Iowa	170,000	1916	(1)	-	(1)
Inter-County Packing Co.	New Richmond, Wisc.	350,000	-	Jan. 1917	2,200	Feb. 1918
Farmers' Coop. Packing Co.	Madison, Wisc.	750,000	1915	May 1917	5,000	1919
Illinois Coop. Packing Co.	Ottawa, Ill.	500,000	June 1918	Winter 1920	1,500	Spring 1921
Equity Coop. Packing Plant	Fargo, N. Dak.	2,880,000	1916	July 1919	19,000	Aug. 1923
Farmers' Coop. Packing Co.[2]	Huron, S. Dak.	1,000,000	1919	(2)	-	(2)
Farmers' Terminal Packing Co.	Newport, Minn.	2,000,000	Mar. 1916	Mar. 1920	-	Apr. 1923
Fergus Coop. Packing Co.	Fergus Falls, Minn.	144,500	1919	July 1920	660	1934
Cooperative Packing Co.	Faribault, Minn.	-	-	-	-	Operated 3 mos.
Farmers' Cooperative Co.[3]	Owatonna, Minn.	-	1915	(3)	-	(3)
		Packing Plants Largely Owned by Farmer Stockholders				
Associated Packing Co.[3]	Des Moines, Iowa	3,877,650	Oct. 1918	(3)	1,200	(3)
Detroit Packing Co.[4]	Detroit, Mich.	2,200,000	1920	1920	2,500	1932
Midland Packing Co.	Sioux City, Iowa	8,000,000	Mar. 1918	Early 1920	-	Apr. 1920
North Dakota Packing Co.	Grand Forks, N. Dak.	-	-	-	-	-

[1]Never opened under cooperative management.
[2]Plant built but never started operations.
[3]Plant was never built.
[4]Detroit Packing Co., a Delaware Corporation.

Appendix Table 2. - *Promoters of 13 cooperative packing plants, 1914-20*

Promoted by	Number of plants
Professional promoters	8
Professional promoters hired by owners of old plants	2
Farmers	2
Livestock commission man	1
Total	13

Appendix Table 3. - *Causes of failure of early farmer meat-packing plants, 1910-20*

Causes of failure	Number of plants[1]
Cooperative Packing Plants	
Lack of operating capital and inability to obtain credit	9
Unsound and high-cost promotion by outside interests	7
Inefficient, inexperienced, and poor management	5
Distrust and lack of confidence on part of farmer-patrons	4
Unsatisfactory sales outlets and keen competition from other packers	3
Lack of and irregular supplies of desirable livestock	2
Too much paid for old plant and equipment	2
Unfavorable freight rates	1
Packing Plants Largely Owned by Farmer Stockholders	
Inefficient, inexperienced, and poor management	2
Lack of operating capital	1
Causes Common to Most Plants	
Farmers' lack of information concerning the meat-packing business	
High cost of operation	

[1]The 13 plants on which this information was based represent 11 cooperatives and 2 other type plants. A number of plants indicated a combination of causes for failure.

Appendix Table 4. - *Financing early farmer meat-packing plants, 1910-20*

Name	Location	Amount of capital	Percent paid promoters
Cooperative Packing Plants			
Equity Cooperative Packing Plant	Fargo, N. Dak.	$2,880,000	20
Fergus Cooperative Packing Company	Fergus Falls, Minn.	144,500	29
Farmers' Cooperative Packing Company	Huron, S. Dak.	1,000,000	[1]
Farmers' Cooperative Packing Company	La Crosse, Wisc.	165,000	15
Farmers' Cooperative Packing Company	Madison, Wisc.	750,000	17½
Brittain Cooperative Packing Company	Marshalltown, Iowa	170,000	12½
Farmers' Terminal Packing Company	Newport, Minn.	2,000,000	30
Inter-County Packing Company	New Richmond, Wisc.	350,000	17
Illinois Cooperative Packing Company	Ottawa, Ill.	500,000	17
Farmers' Cooperative Packing Company	Rockford, Ill.	400,000	15
Farmers' Cooperative Packing Company	Wausau, Wisc.	250,000	17½
Packing Plants Largely Owned by Farmer Stockholders			
Associated Packing Company	Des Moines, Iowa	3,877,650	25
Detroit Packing Company, Delaware Corporation	Detroit, Mich.	2,200,000	[2]
Midland Packing Company	Sioux City, Iowa	8,000,000	25

[1]Information not available.
[2]Definite information not available, but reports indicate that promoters received $100,000 in stock.

Appendix Table 5. - *Purchasers of early farmer meat-packing plants that failed*

Name	Location	Plant sold or leased to		
		Big packer	Indepen-dent	Coopera-tives
Detroit Packing Company, a Delaware Corporation	Detroit, Mich.			1
Equity Cooperative Packing Plant	Fargo, N. Dak.	1		
Cooperative Packing Plant	Faribault, Minn.	1		
North Dakota Packing Company	Grand Forks, N. Dak.	1		
Farmers' Cooperative Packing Company	Huron, S. Dak.	1		
Associated Packing Company	Los Angeles, Calif.	1		
Farmers' Cooperative Packing Company	Madison, Wisc.		1	
Brittain Cooperative Packing Company	Marshalltown, Iowa		1	
Farmers' Terminal Packing Company	Newport, Minn.	1		
Farmers' Cooperative Packing Company	Rockford, Ill.		1	
Midland Packing Company	Sioux City, Iowa	1		
Farmers' Cooperative Packing Company	Wausau, Wisc.		1	
Total		7	4	1

Appendix Table 6. - *Capitalization, date of organization, membership and date when operations were suspended for farmer meat-packing plants, 1930-55*

Name	Location	Capitalization	Date		Number of members	Suspended operations
			Organized	Began operation		
Cooperative Packing Plants						
1. Packing plant operated by Milk Producers Assn. of Central Calif.[1]	Modesto, Calif.	-	-	Apr. 1930	-	1942
2. Las Vegas Meat and Prov. Co.[2]	Las Vegas, Nev.	$16,000	-	1935	60	Closed
3. Idaho Meat Producers, Inc.[3]	Caldwell, Idaho	105,000	1932	Jan. 1938	1,700	June 1938
4. Cooperative Packing Co.[4]	Twin Falls, Idaho	-	1938	(4)	-	(4)
5. Detroit Packing Co.[5]	Detroit, Mich.	428,000	-	Dec. 1933	1,600	May 1954
6. The New Cooperative Co.	Dillonvale, Ohio	17,500	-	1935	-	Still operating
7. MFA Packing Co.	Springfield, Mo.	750,000	1945	Jan. 1946	-	Still operating
8. Shen-Valley Meat Packers, Inc.	Timberville, Va.	1,500,000	1945	Nov. 1949	1,250	Still operating
9. Prairie Packing Co.[6]	Marion, Ill.	113,850	1946	Nov. 1947	-	Still operating
10. Prairie Packing Company, Inc.	Carlinville, Ill.	-	-	1948	-	Still operating
11. Oregon Livestock Cooperative[8]	Clackamas, Ore.	80,000	1944	June 1949	670	1950
12. Southwest Wash. Marketing Assn.	Centralia, Wash.	75,000	1947	1949	250	1950
13. McLean Co. Cold Storage Co.	Bloomington, Ill.	125,000	1948	1949	-	1950
Packing Plant Largely Owned by Farmer Stockholders						
1. Kentucky Independent Packing Co.	Lexington, Ky.	[9]125,000	-	July 1936	-	1939

[1]Financed by Milk Producers Association of Central California.
[2]Loan from Rehabilitation Department, little money put up by local people.
[3]$65,000 paid in $40,000 loan.
[4]Never started operations.
[5]Preferred stockholders' $128,000 balance loan.
[6]Changed name in 1951 from Williamson County Cooperative Service, Inc.
[7]Changed name in 1957 from Macoupin Locker Service.
[8]Farmer investment.
[9]Cost of plant.

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