Poultry and Egg Cooperatives

FARMER COOPERATIVES IN THE UNITED STATES
COOPERATIVE INFORMATION REPORT 1
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CONTENTS

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Poultry production, perhaps, has undergone greater change than any other agricultural product. From backyard farm flocks of a few dozen birds, production has evolved into highly mechanized mass-production in houses such as the one below with 12,000 broilers. Production operations are often integrated with related production, processing, and marketing functions.

Poultry and Egg Cooperatives

Poultry and egg farmers have for many years depended on cooperatives to provide them with the means for expanding their production and marketing capabilities. As the poultry and egg industry evolved into sophisticated, highly coordinated operations, producers came to believe that economic cooperation was necessary to stay in business.

Farmers' cash receipts from the sale of poultry and poultry products totaled about $9.1 billion in 1980—more than double those in 1970 (table 1). Poultry and poultry products in 1980 accounted for about 14 percent of all livestock and livestock product receipts and for 6.7 percent of total receipts from all farm products. Their relative position has declined somewhat since 1965.

In 1980, poultry receipts consisted of the following: broilers, $4.3 billion; eggs, $3.2 billion; turkeys, $1.3 billion; and farm chickens and other poultry, $338 million. Additional data on number of birds and quantity of eggs produced will be discussed in later sections of this report.

Table 1—Farm cash receipts from the sale of poultry and eggs, selected years, 1950-80

Calendar year	Broilers	Turkeys	Eggs	Farm chickens	Other and hatching eggs	Total
	Million dollars					
1950	533	266	1,579	413	48	2,839
1955	844	326	1,777	226	51	3,224
1960	1,014	371	1,738	105	65	3,293
1965	1,218	421	1,788	86	70	3,583
1970	1,463	492	2,169	104	23	4,250
1975	2,895	794	2,791	104	226	6,810
1980	4,301	1,250	3,248	130	208	9,137

Source: Economic Research Service, U.S. Dept. Agr., Statistical Bulletin No. 674.

EARLY COOPERATIVE POULTRY AND EGG MARKETING

The early development in cooperative marketing of poultry and products goes back to about 1900 and was limited to chickens and eggs. Turkey cooperatives began in the 1920's and cooperative marketing of broilers started in the 1940's.

Several types of producer associations were involved in handling poultry and eggs. In the early 1900's, creamery, grain elevator, and farm supply cooperatives in the Midwest and North Central area often provided an outlet for eggs and poultry produced as a sideline on small farms. These could be termed "nonspecialized" cooperatives because marketing poultry and eggs was a secondary activity. "Specialized" cooperatives, beginning with early egg circles (as they were called at the time) and progressing to large marketing associations, developed where volumes of eggs or birds were large enough to support an economic production unit, most often in the Northeast and the Far West.

Specialized cooperatives remained smaller, for the most part, than cooperatives marketing other commodities. Because much of the early production was secondary, egg supplies were fragmented among several million farms throughout the country. This made it difficult to assemble large volumes of eggs or chickens and cooperative marketing operations remained small in most areas.

In 1950-51, the number of cooperatives (both specialized and nonspecialized) handling poultry and eggs peaked at 760. The greatest number of active specialized associations was 194 in 1937-38. These numbers, however, do not tell the full story. From about 1920 on, a great many specialized poultry and egg cooperatives were formed but often failed within a year or two. Usually, it was because they were too small or they did not have the full support of members who often had small farm flocks. Also, too many cooperatives were formed on hope and great expectations rather than with the substance and patience necessary for building sound associations.

CURRENT POSITION

During the past three decades, the numbers, types, and functions of cooperatives handling poultry and eggs changed drastically. The number declined rapidly—from 760 in 1950-51 to 74 in 1980 (table 2). This reduction reflects the profound changes in farming, such as the great

decrease in the number of family farms and consequently farm flocks; displacement of farm chickens by broilers produced in the South; growth of large new turkey production units; replacement of midwestern eggs by those from large new production units in the South; and vertical integration and contracting. All have combined to displace outmoded cooperative poultry and egg production and marketing activities in those areas.

The 74 cooperatives operating in 1980 had about $1.1 billion of net sales of poultry and eggs (table 2). After deducting value-added from processing and marketing margins, the cooperative share at the farm level was about 9 percent. This share has changed little since 1950-51, the first year such data were available.

A financial profile survey in 1975-76 showed that 37 primarily poultry and egg associations had $167 million in assets and $82 million net worth or members' equity. Member equity consisted of capital stock, 5.3 percent; certificates of equity and capital credits, 90.4 percent; and unallocated reserves or surplus, 4.3 percent.

These cooperatives realized $17.6 million in net margins distributed as follows: cash patronage returns, 34.9 percent; noncash patronage returns, 65.4 percent; dividends on equity capital, 0.6 percent; income taxes, 1.6 percent; and unallocated reserves, -2.5 percent. Fifteen operat-

Table 2—Sales of poultry and poultry products by cooperatives and cooperative share of market at farm level, selected years, 1950-51 to 1980

Fiscal year[1]	Primarily poultry and egg cooperatives		Co-ops handling poultry and eggs	Net sales of poultry and eggs[3]	Co-ops' share of market at farm level
	Number	Members[2]			
		Number		*Million dollars*	*Percent*
1950-51	127	117,530	760	263	7.9
1955-56	143	115,430	662	351	8.9
1960-61	118	84,525	567	424	9.8
1965-66	81	48,120	396	438	9.2
1970-71	49	124,995	226	600	10.0
1975-76	36	87,296	151	807	8.3
1979	26	67,359	76	1,027	8.3
1980	25	110,039	74	1,125	8.8

[1]For fiscal years ending between July 1 and June 30 of the following year, except for calendar years in 1979 and 1980.

[2]Numbers vary depending under which farm product large diversified cooperatives are classified as primary type.

[3]After eliminating intercooperative business.

Cooperative involvement in poultry developed generally in two ways. Cooperatives handling other purchasing and marketing functions added poultry and egg services, or cooperatives were formed specifically to provide the services.

ed under Sec. 521 of the Internal Revenue Code of 1954 and 22 were not operating under Section 521.

A survey of 69 cooperatives in 1978 showed 53 were marketing eggs, 9 were marketing broilers, 13 were marketing turkeys, and 2 were marketing other types (ducks and squab). A few marketed more than one type.

COOPERATIVE MARKETING OF EGGS

Trends in Egg Production and Receipts

U.S. farmers marketed 69.2 billion eggs in 1980. This was 10.7 billion more than in 1950, but nearly the same as in the 1970's when production peaked.

Per capita consumption in 1980 stood at 279 eggs, the lowest recorded figure since 1950 when per capita consumption was 389. Cash receipts to producers from sales of eggs in 1980 were about $3.5 billion—more than double the receipts in 1970. In addition to modernization and commercialization, extensive and significant shifts have occurred in the geographic location of egg production during the past 25 years. They include:

1. Large increases in egg production capacity, as measured by the average number of layers on farms, occurred in the South Atlantic, Western, and South Central regions. Severe decreases in egg production capacity during this period occurred in the West North Central, East North Central, and the Middle Atlantic regions.

2. In the West, increases in egg production occurred in California. The other 10 Western States have changed little.

3. Egg production is expected to continue at a high level in the South and the Far West. Eventually, however, transportation costs of feed inputs and of delivering eggs to distant markets may encourage movement of production closer to grain sources and markets.

Early Ventures in Cooperative Marketing

Between 1905 and 1914, farmers in Minnesota, Wisconsin, and Missouri formed simple cooperatives to market eggs in 30-dozen cases and live poultry in crates. Most of these operated for only a few years because of fluctuating volume, inexperienced management, and long distances to market. One reportedly was organized by the Illinois State Grange in 1874 but it also was short lived.

The next area where cooperative marketing of eggs developed was in the Far West, particularly California. The Hayward Poultry Producers

Association, Hayward, Calif., was formed in 1898, but soon after its first wagonload of eggs was stolen in San Francisco, it restricted operations to feed buying and milling. The Santa Rosa (Calif.) Poultry and Exchange was organized in 1901 and served 200-300 members for 22 years. In 1913, the Tulare (Calif.) Cooperative Poultry Association, one of the more successful cooperative ventures, began operations. Soon afterward—from 1916 to 1920—other egg marketing associations organized in California, Washington, and Oregon. Some also handled live chickens and others dressed chickens. These were specialized egg marketing cooperatives that operated mostly on a pooling basis. Examples were Poultry Producers of Central California, San Francisco (later named Pacific Growers and presently Nulaid Foods, Inc.); and Washington Cooperative Egg and Poultry Association, Seattle, formed in 1917, and which later became Western Farmers Association.

From 1913 to 1926, community egg circles began to appear in the Midwest and Central States. They were followed by the organization of small local egg marketing associations and the addition of egg marketing to other types of local cooperatives. It was the peak period of local cooperative development for many farm products in those areas.

For many years, the North Central region was the major source of eggs for deficit areas. Most of the eggs were produced by small farm flocks, which made efficient and economical marketing a problem. As a result, farmers turned to their dairy, grain, and supply cooperatives to market eggs. This type of secondary operation continued for many years because dispersed and seasonal volume made it difficult for specialized egg marketing cooperatives to develop successfully.

In 1923, egg producers in the Mountain States also formed specialized cooperatives: Idaho Egg Producers (now Idabest, Inc.), Caldwell; and Utah Poultry Producers Association (now Intermountain Farmers Association), Salt Lake City.

A highlight in 1922 was the formation of the Pacific Egg Producers, known by its trademark "PEP." This was a federated sales agency formed by five western egg and poultry cooperatives to market surplus western eggs in eastern markets from its New York headquarters. It was the first outstanding development in federated cooperative egg marketing, and at its peak PEP was marketing nearly 2 million cases a year. By selling dependable quality eggs in large volume, it created a demand that brought a premium for the white western eggs. For more than 20 years—until supply-demand factors and World War II changed conditions—PEP was an effective federated sales agency.

Before 1930, northeastern producers were rarely successful in attempts to market eggs cooperatively. The few areas of concentrated

production were generally near a market, and farmers found it easy to sell their modest production individually. In the 1930's, egg auctions were organized in Ohio, New York, New Jersey, and New England. Some of these later developed into cooperatives that collected, graded for size and quality, and cartoned eggs. At the peak of their activity around 1960, more than 30 such associations were marketing more than 6 million cases of eggs annually. In the Northeast, many merged into Eastern States Farmers Exchange, West Springfield, Mass. Others in New York were or became part of the Cooperative Grange League Federation Exchange, Inc., Ithaca.

In the 1940's, the Cooperative Poultry Manure Dehydrating Plant at Toms River, N.J., became the first cooperative to dispose of poultry wastes. It processed manure from members' operations into salable fertilizer to reduce costs of manure disposal. However, it lasted only 3 years because it could not acquire enough raw product to operate efficiently.

In 1947, the Indiana Farm Bureau Cooperative Association, a wholesale supply cooperative, established a poultry and egg department to serve its countywide cooperatives. It later added a hatchery and a layer breeding farm that operated until 1981.

Producers and Retailers Cooperative, Inc. (PARCO), of Hayward, Calif., was a unique development in the West, although it lasted only 5 years. Organized in 1962, it consisted of unusual members—7 retailer-owned grocery cooperatives, 2 food chains with more than 100 stores, a food processor, an egg procurement company, and 2 large producer marketing cooperatives. Its purpose was to produce and distribute agricultural products for a known demand in the most economical way possible, with both producers and retailers sharing the margins resulting from joint action. The first year's operations were very successful. PARCO was ready to expand when some participants developed financial problems. These problems brought to an end in 1967 a concept that observers believed would have far-reaching possibilities.

In the 1960's, cooperative egg marketing developed in the South, and existing operations in the Northeast consolidated. The South had always depended on the North Central States for thousands of cases of eggs weekly. During the 1955-60 period, southern egg production surged upward, beginning with a few broiler producers who turned to eggs while waiting for broiler overproduction to level off. In a very short time, local eggs took over southern markets, and by 1960, six Southern States—Georgia, North Carolina, Mississippi, Arkansas, Alabama, South Carolina—had egg surpluses. By 1967, Georgia had replaced Iowa as the largest surplus-producing State in the country. As a result, many independent producers turned to their cooperatives, such as Southern States

Cooperative, Richmond, Va.; Farmers Cooperative Exchange, Raleigh, N.C.; and Mississippi Federated Cooperatives, Jackson, Miss., for assistance in egg marketing. The latter, now MFC Services, Madison, Miss., and the largest in the South, began its program in 1958. In the Northeast, the formation in 1964 of Agway Inc., Syracuse, N.Y., from three existing regional cooperatives resulted in a consolidation of egg marketing activities.

During 1950-80, many changes occurred in the North Central States. A drastic decrease in farm flocks reduced this region's surplus to where it is no longer the Nation's egg basket. As a result, hundreds of small egg marketing operations in local cooperatives and some specialized cooperatives were dissolved. But in recent years, as fewer but larger commercial egg producers emerged, a few integrated and coordinated cooperative egg operations have developed.

Other developments during this period were: addition of egg marketing services by Farm Bureau Services, Lansing, Mich.; ceasing of egg, fryer, and turkey marketing by Western Farmers Association, Seattle, Wash.; ceasing of bargaining operations by Southwestern Egg Producers, Riverside, and other small bargaining groups in California; ceasing of egg marketing by cooperatives in Utah and southern California and arranging for member services from a large private company; development of contract egg production and marketing by Gold Kist, Inc., Atlanta, Ga.; merger of several egg marketing cooperatives into Landmark, Inc., Columbus, Ohio; and ceasing of breeder farm and hatchery operations by Indiana Farm Bureau Cooperative Association, Indianapolis, in 1981.

Current Position

In 1980, some 60 cooperatives marketed about $262 million worth of eggs, but 13 had less than $10,000 in egg sales. Fifty of the sixty cooperatives marketed only eggs, four sold eggs and broilers, four marketed eggs and fowl, one marketed eggs and turkeys, and one marketed eggs, turkeys, and broilers. Data for 1978 indicated that 53 cooperatives had egg sales of about $260 million with about $75 million in the Northeast, and from $60 million to $65 million in each of the North Central, Southern, and Western areas of the country. Following is a brief description of the current egg marketing operations of four regional cooperatives:

Nulaid Foods, Inc., of San Leandro, Calif., provides egg marketing services in central California and parts of Utah. It manufactures and supplies most of the feed for its members' egg production. In 1969, it diver-

sified to include butter and cheese, both complementary to egg marketing.

From its beginning in 1916, Nulaid has served thousands of members, reaching a peak membership of 12,000 in 1959. Since that time, however, membership has decreased as the size of laying flocks increased. Now, Nulaid has fewer than 100 members but some maintain flocks of up to 400,000 birds. Nevertheless, Nulaid is the largest egg marketing cooperative in the United States, and is one of the three largest egg marketing firms with egg sales of more than $45 million annually.

This association is unique in that it has been able to maintain its prominence without resorting to a high degree of vertical integration. As a result, it has avoided many time-consuming production problems.

Nulaid manufactures and supplies formula feed from three mills for members' flocks and contracts to market their eggs. In its agreements, Nulaid commits itself to supply all feed at competitive prices and to market all its members' eggs. Members on the other hand commit themselves to buy all their feed from Nulaid and to market all their eggs through it. In return for a guaranteed market, members agree to limit expansion to needs of new markets. About 75 percent of Nulaid's eggs are marketed in cartons. Some of the remaining 25 percent are marketed nest-run and the rest are formulated into other products.

Shell eggs intended for retail stores are graded and packed at 13 on-sight locations of large producers. Refrigerated trucks, garaged at these locations, deliver eggs directly to retail stores. This method is a complete turnabout from the 1960's when Nulaid operated the world's largest centralized egg collecting and processing plant.

Most cartoned shell eggs are destined for primary markets along the Pacific Coast in northern California, Oregon, and Washington, with some shipped as far east as Utah. Surplus eggs usually are exported or sold to the military. Nulaid gains title rights to members' eggs through outright purchase. Basis for payment is street competition and cost of operation. Mutual agreement, however, allows "wrong decision correction" at year's end. One reason for Nulaid's success has been its "Nulaid" brand name, used since the 1920's. Nulaid claims to be the world's largest distributor of a brand name egg.

Landmark, Inc., of Columbus, Ohio, is a large, federated supply and marketing cooperative. Organized in 1933 as the Farm Bureau Cooperative Association, Inc., it changed to its current name in 1971.

In the past 15 years, Landmark has increased its egg operations considerably by acquiring the assets of four Ohio egg marketing cooperatives. They are at Napoleon, Wooster, New Washington, and Columbiana while their marketing outlet, Federated Egg Sales, is headquartered at

Pittsburgh, Pa. Landmark operates four egg processing plants and markets more than 2.6 million cases of eggs annually.

Landmark's egg program is partially integrated. Producer-contractors operate under a marketing agreement that calls for Landmark to market all their eggs. Landmark owns the layers and supplies feed and other supplies; growers provide the housing and labor. Landmark does not have a hatchery but owns 50 percent of a started pullet operation.

Agway Inc., Syracuse, N.Y., is a large regional marketing/purchasing cooperative that provides numerous services for its 110,000 members throughout the Northeast, Delaware, and parts of Maryland. Agway is one of the three largest egg handlers in the United States, marketing from 2 million to 2.5 million cases a year.

When it was formed in 1964, Agway combined the extensive egg marketing operations, experiences, and facilities of three regional cooperatives. It has become an innovator of various egg programs intended to help the farmer egg producer. Agway supplies inputs and services to independent producers and markets their eggs.

In addition, Agway promotes the layer industry in the Northeast and offers several key services, including: (1) nutritionally sound feeds and feeding programs backed by research work at the Agway Poultry Research Farm, the Cooperative Research Farms (CRF) layer research farm at Providence Forge, Va., or research conducted at land-grant university experiment stations through grants-in-aid; (2) management and technical assistance; (3) building and design construction; (4) facility leasing; and (5) financing to qualified independent poultry producers along with the customary egg processing and marketing services.

MFC Services (AAL), Madison, Miss., is a federated marketing/purchasing cooperative that serves local cooperatives in Mississippi and Louisiana. It entered the shell egg business in 1959 and developed a fully integrated program. By 1980 its egg sales were about $12 million and involved 1.1 million layers and 300,000 pullets with 61 contract producers.

MFC collected, processed, and marketed shell eggs through three plants. It sold about 65 percent in cartons and 35 percent loose, and 80 percent were sold in the South and 20 percent in the Northeast. MFC operated two egg products plants where liquid whites, yolks, and whole eggs were blended, pasteurized, packaged, and sold to institutional and commercial markets.

Until mid-1981, MFC contracted with farmer-producers of hatching egg breeder flocks, started pullets, and layer flocks. It operated a hatchery for breeder flock and pullet growers. It manufactured a full line of feeds and provided medications, insecticides, equipment, and other farm sup-

plies. It also provided specifications for poultry housing and supervised construction.

In mid-1981, MFC began selling its shell egg program inventories, contracts, and facilities, citing the longtime market depression in the egg industry, made worse in recent years by high fuel and interest costs. In 1982, MFC leased one egg products plant and closed the other. Reasons for these actions were a deficit egg supply for breaking; weakening of the export market, causing a liquid whites surplus; and high energy and distribution costs.

Two other cooperatives in the Southeast that market substantial volumes of eggs are FCX, Inc., Raleigh, N.C.; and Gold Kist Inc., Atlanta, Ga.

Extent of Vertical Integration

Vertical integration is the inclusion of a number of services for a product as it moves from producer to consumer. In marketing cooperatives it is sometimes called forward integration.

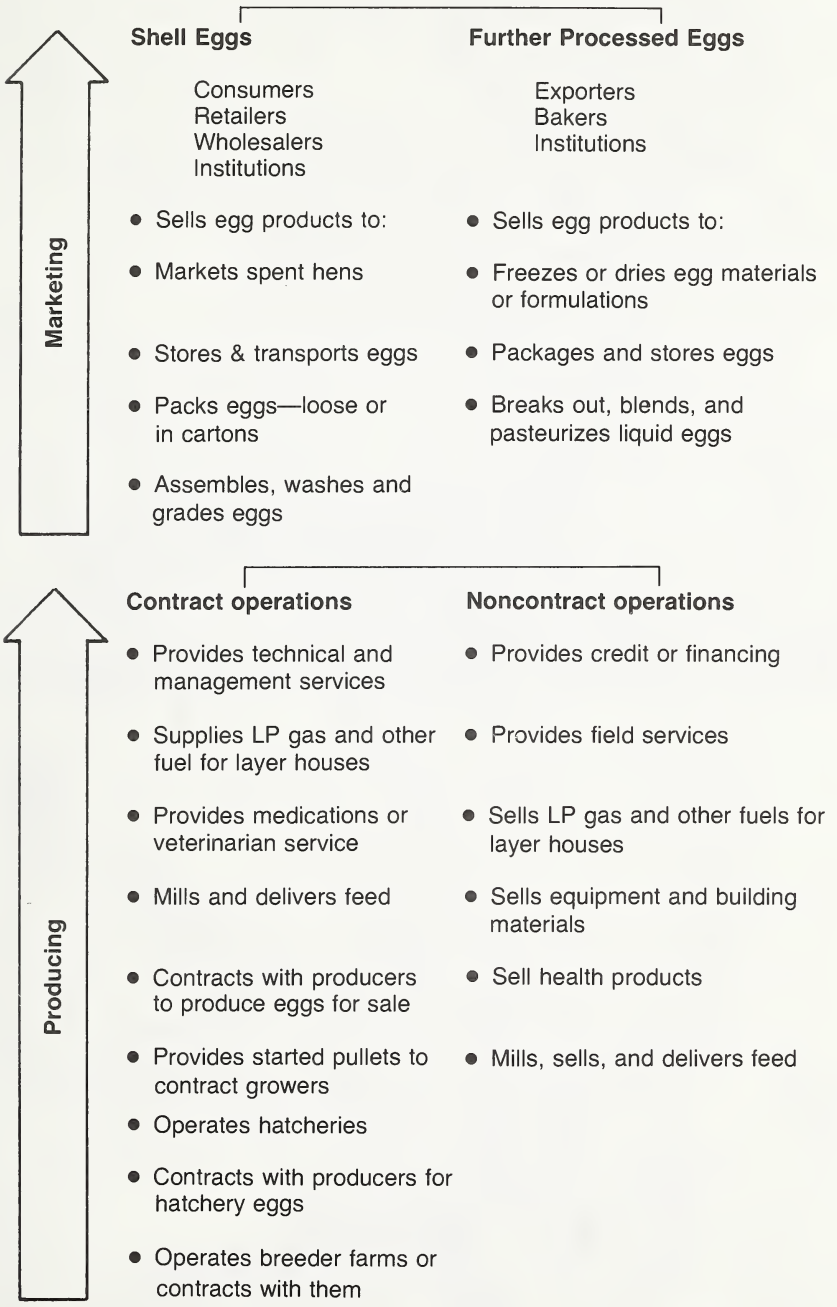
With some products, the process may begin at the marketing level and later involve processing, further processing, wholesaling, and retailing. However, with eggs and broilers, the integration process may begin with the production process, such as breeder farms, hatcheries, feed mills, and contract producers. Also, a single cooperative integrator may perform all the services, or it may provide them through jointly owned cooperatives, sometimes called interregional associations.

Table 3 shows the principal integrated functions that egg-handling cooperatives perform. Further processing involves egg breaking and preparation for the food service markets. The production functions may be either contract or noncontract operations. Integrated cooperatives usually do not own all egg production facilities that are operated with hired labor. Estimates are that from two-thirds to three-fourths of all eggs are produced and marketed by integrated firms and that cooperatives probably account for less than 10 percent of the total. Recent data indicate that cooperatives process about 8 percent of total eggs, broilers, and turkeys produced.

Methods of Operation

Egg marketing cooperatives have used various operating methods. The most common have been auctioning, commission selling, buying and selling, pooling, bargaining, and contracting for production and mar-

Figure 1—Cooperative Vertical Integration in Eggs



Cooperatives, including Farm Bureau Service, Lansing, Mich., were among the first businesses to use the Haugh Unit method to test egg quality. They also were quick to adopt new technology, such as this automatic egg grading, sizing and packaging machine at Western Farmers Association, Seattle, Wash., and faster transportation methods.

keting. To a degree, egg cooperatives have been identified by their method of operation—for example, egg auctions or egg pools.

Auctioning is selling the product of each member separately to the highest bidder. Between 1930 and 1939, some 32 auction associations were started in Pennsylvania, Connecticut, New York, Massachusetts, New Hampshire, Ohio, Rhode Island, Illinois, Indiana, and Maryland. The oldest, the Flemington (N.J.) Agricultural Marketing Cooperative Association, Inc., was organized in 1930. By the 1950's, it was serving 2,500 members. It is still operating but not as an auction.

Most associations originally handled only eggs, adding poultry later. They usually auctioned off eggs twice a week and live poultry once a week, both in small producer lots.

No cooperative auctions have been organized since 1939 and no poultry and egg cooperative now operates as an auction. As volume increased, the auction method became too slow and cumbersome. So over the years, most of the auction cooperatives either turned to pooling as a method of operation, merged into larger associations, or went out of business. Many abandoned auctioning during World War II because of price ceilings. For a few years after the war, though, some eggs were auctioned on the commodity market, mostly for price discovery, but the

Table 3—Performance of integrated functions by 69 cooperatives marketing poultry and eggs in 1978

Integrated function	Eggs	Fowl	Turkeys	Broilers	Ducks, squab	Total
			Number of cooperatives			
1. Contracting breeder flocks for hatching eggs	24	—	6	13	1	44
2. Operating hatcheries	24	—	6	13	1	44
3. Growing out pullets, poults, or birds	26	—	6	13	1	46
4. Producing commercial eggs	26	—	—	—	—	26
5. Milling feed	29	—	7	9	0	45
6. Processing eggs	30	—	—	—	—	30
7. Further processing eggs	25	—	—	—	—	25
8. Processing birds	—	0	7	12	2	21
9. Further processing birds	—	0	7	10	2	19
10. Selling eggs[1]	53	—	—	—	—	53
11. Selling birds	—	6	7	13	2	28
12. Providing other services	43	4	7	13	2	69
Total handling each product (of 69 cooperatives)	53	6	7	13	2	81

[1]Of the 53 cooperatives, 49 sold eggs only; 7 sold eggs and broilers; 4 sold eggs and fowl; and 1 sold eggs and turkeys.

volumes became too small to be effective.

Commission Selling is marketing the producers' eggs at private sale instead of by auction. Producers size their eggs on their farms, and the association inspects and sells them.

Each producer receives the gross sales price for eggs, minus a commission charge, on each case of eggs. This type of association often evolved when auctions were discontinued. But as volume increased, some associations found it necessary to depart from individual producer lot sales. The commission method is no longer common among egg and poultry cooperatives.

Pooling is the commingling of the products of several members to average out seasonality of prices or to average out quality and market fluctuations. The first is called a seasonal pool and the second a blend pool. The latter is more common.

Pools became popular in the 1920's and most of the larger and older western egg associations operated them. Most of the egg auctions that survived in Ohio and the Northeast progressed to the pool method. In this type of operation, initial advances or partial payments are made to producers on delivery, with final payment delayed until all products are sold and price considerations are worked out—usually on a weekly or semiweekly basis.

Buying-and-Selling is the outright purchase-and-sales method, where associations pay full cash market or competitive prices for products each day. Most who use this method handle eggs and poultry as a sideline and were originally set up to manufacture feed and handle farm supplies or market farm products.

Utilizing this method are the Egg Marketing Division of Agway Inc., Syracuse, N.Y.; United Cooperative Farmers, Inc., Fitchburg, Mass.; Inter-County Farmers' Cooperative Association, Inc., Woodridge, N.Y.; and Central Connecticut Cooperative Farmers Association, Manchester, Conn.

Bargaining has the association acting as an intermediary between groups of individual producers and receivers in such matters as prices, weights, and quality maintenance. As a rule, it only supervises or acts as a bargaining agent in the selling process and does not physically handle products or make payments to members.

Grading and packing services are performed largely by members so association costs are low. In some instances, receivers pay association costs rather than charging producers. Obtaining uniformity of product and pack is one of the difficulties of this type of cooperative.

Examples of cooperatives that have used bargaining are the Quality Egg Club Cooperative Association of New Jersey, Inc., Vineland; Bradco

Egg Producers Cooperative, Inc., Towanda, Pa.; Farmingdale (N.J.) Cooperative Egg Producers Association, Inc.; and Federation of Poultry and Egg Producers Cooperative Associations, Inc., Lakewood, N.J.

A few groups of central California egg producers bargained with receivers in the 1960's but are no longer active. They also bargained with independent feed mills for bulk deliveries on a few formulas. A closely related cooperative effort is bargaining over the price of spent hens. The Farmers Agricultural Cooperative Trading Society (FACTS), Waldrow, Mass., is an example.

Intercooperative Marketing

Nearly all cooperative egg marketing is for producers. In 1980, only three regional federated cooperatives marketed $34.5 million in eggs for other cooperatives. These were Landmark, Inc., Columbus, Ohio; Southern States Cooperative, Richmond, Va.; and North American Egg and Poultry Cooperative Association, Inc., New York City, N.Y. The latter, an interregional cooperative, is owned by Landmark, Agway, MFC Services, and FCX, Inc.

Contracting for Production and Marketing

As discussed, a number of the larger cooperative egg operations are now fully integrated, both horizontally and vertically. These operations are mostly a part of the diversified operations of large marketing/purchasing associations.

A cooperative usually operates breeder farms and hatcheries and contracts with selected farmers to produce hatching eggs. After the chicks are hatched the association contracts with other producers to grow out the pullets and produce eggs for commercial sale. The cooperative owns the layers and manufactures and supplies feed. It provides medicines and technical and management assistance.

The producers provide the land, houses, and labor; and market the eggs according to the requirements of the cooperative integrator. Examples of such cooperatives are Gold Kist Inc., Atlanta, Ga., and until recently MFC Services, Madison, Miss.

A few associations have integrated into production on their own farms and hire labor for all phases of the operation. Such egg production usually is complementary to member production, and serves to bolster scheduling and supply requirements of the overall operation.

Organizations Serving Egg Cooperatives

Cooperatives marketing eggs may be a member of and support trade organizations that work for the good of the industry. Their efforts may include legislation, merchandising, promotion, and product and market research. An example is the American Egg Board, Park Ridge, Ill.

The Egg Clearing House (ECH), Durham, N.H., was organized by several egg companies to work on price discovery processes.

A national organization associated with the aims of cooperatives handling eggs is the United Egg Producers (UEP), Decatur, Ga. It was formed to carry on legislative and marketing research activities for egg producers. It is national in scope with five regional affiliates: Midwest Egg Producers, Davenport, Iowa; Northeast Egg Marketing Association, Durham, N.H.; National Egg Company, Norcross, Ga.; Northwest Egg Producers, Tacoma, Wash.; and Western Egg Company, Sacramento, Calif.

Several regional associations have been established at different times to help poultry and egg producers. Examples are the Northeast Poultry Producers Council (NEPPCO), Trenton, N.J., and the Southwestern Egg Producers (SWEP), Riverside, Calif. For many years, NEPPCO had a cooperative division that gave specialized attention to legislative and other needs of member egg and poultry marketing cooperatives in the Northeast. SWEP, operating on the west coast, attempted to solve problems of egg surpluses and low prices by combining the efforts and cooperation of cooperatives, large individual producers, and other firms. After early successes, SWEP failed because its members failed to honor agreements on voluntary production and marketing restraints.

Cooperatives handling eggs and poultry products belong to broader national cooperative organizations such as the National Council of Farmer Cooperatives and the American Institute of Cooperation, both headquartered in Washington, D.C.

Benefits

The principal benefits of marketing cooperatives have been dependable and honest market outlets, greater market returns, assistance in production efficiency, and assistance in marketing better quality eggs. Although many cooperatives have discontinued marketing eggs in recent years due to changing industry and economic conditions, longtime members believe they have had lasting benefits from their services and influence on local markets.

Auction associations were helpful in their time in both commercial and semicommercial producing areas. Auctions attracted many producers because of their local nature, small volume, minimal capital requirements, prompt producer payments, absence of marketing agreements, visible operations, and low operating costs. They enabled members to obtain better prices for their eggs while nonmembers also benefited because of competitive bidding.

Western marketing cooperatives, with their large volumes of eggs and feed manufacturing, were able to operate efficiently and obtain above market returns for members. During the 1920's and 1930's, federated cooperative sales agencies successfully marketed western surplus eggs in eastern markets—often at a premium. These cooperatives were sensitive to consumer demands and esthetics and became leaders in improvement of egg quality. They did this by means of research, implementing progressive methods, producer education, and vigilance in egg handling.

Cooperatives have helped maintain egg industry vitality in the Northeast. They have provided egg processing and marketing services, nutritious feed at reasonable costs backed by sound research, feeding programs and management and technical assistance, building design and construction or leasing, and credit to qualified poultry producers.

In the South, a few cooperatives with highly integrated operations have relieved members of the risks of price changes, helped provide relatively small producers with the benefits of vertical integration, gained access to new markets, and protected outlets by ensuring large buyers a dependable and consistent source of known quality eggs.

Cooperatives also have helped consumers by providing a year-round supply of improved quality eggs at reasonable prices.

Challenges

Egg and poultry cooperatives will be confronted by two main types of challenges: (1) Those that have to do with structure, size, and internal affairs of the cooperatives, and (2) pressures from outside sources.

Internally, the membership of egg cooperatives historically consisted of small producers. This era has mostly ended, although there are still considerable differences in sizes of flocks. The cooperative enterprises cannot exist without the volume of large producers, but problems often arise when very small- and very large-volume producers comprise the membership. The problem is: "Who will control the cooperative?" Large producers tend to feel they should have more say than the small producers.

Other membership questions are: Should publicly held corporations that produce eggs under contract be considered producers and allowed membership privileges? Should small corporations such as those engaged in local feed milling and egg production be admitted to membership?

Egg cooperatives already are faced with decisions on the use of production contracts. Should all producers be under control, or should there be a mix? Will cooperatives have to be more restrictive, even to the point of tailoring their membership?

Another problem area in egg marketing cooperatives pertains to use of marketing contracts or agreements. Should there be such agreements; and if yes, for how long a term, how binding should they be, and what should be done when they are abrogated by either party?

Can cooperatives justify plants requiring enormous outlays to further integrate operations? Can most of the necessary grading and packing of eggs be completed at the farm production facility, thereby negating the need for a centralized cooperative egg processing plant? Some cooperatives need to develop long range programs for retiring the equities of inactive members. The need is most urgent for estates and persons who have left the area.

The larger question is: Will cooperatives be involved in egg marketing in the future? There are now only four east of the Rockies, for example, that are engaged in egg production and marketing to a substantial degree. The trend seems to be to units of 500,000 or more layers. Can cooperatives obtain and serve members with complexes of this size?

External challenges may take various forms and come from many sources. Among them are challenges to cooperatives' rights to do business, the manner in which they do it, and their size.

Energy shortages can be a serious potential challenge with all its ramifications. For example, what will be the least energy-intensive locations for production facilities of the future—near the grain source, close to the consuming areas, or in areas where labor for processing plants is readily available? Should products be frozen or merely iced to save energy? Should there be a whole new thrust in type of products, amount of processing required, and the like?

Another external question will be that of bargaining for price and other considerations. Will individual cooperatives continue to do their own selling? Or will they depend more on federations or other agencies, regional or national in scope, through which they might gain increased marketing power? Will forward contracting reduce the need for such federated or other bargaining agencies?

The possibilities of joint action among cooperatives to develop

exports of egg products may be another challenge in the years ahead.

Maintaining supply in relation to demand continues to face cooperatives and other firms. The effects of large swings between profitability and loss, coupled with high energy and money costs, may make survival very difficult.

COOPERATIVE MARKETING OF TURKEYS

A second major segment of the poultry industry is the production and marketing of turkeys.

Trends in Turkey Production and Receipts

Farmers of the United States in 1980 produced about 3.1 billion liveweight pounds of turkeys. This was almost four times the volume in 1950 and 45 percent more than in 1970, representing a greatly enhanced acceptance of turkey as a regular item in the American diet. This acceptance by a growing population is expected to cause production to increase in the next decade but at a slower rate.

Per capita consumption increased from 4.1 pounds in 1950 to 10.6 pounds in 1970.

Farmers' cash receipts from sales of turkeys increased from $492 million in 1970 to $1,269 million in 1980.

Early Ventures in Cooperative Marketing

Cooperative marketing of turkeys in the United States began in the West about 1921. By 1929, more than 60 marketing associations had been formed in the Mountain and Pacific States. A number of these were quite successful for 20 or more years. Most, however, lasted only through one, or at best a few, annual poolings (marketings).

Among the earliest and most successful ones were Holbrook Turkey Growers Cooperative, Cheraw, Colo., formed in 1922 and now part of Farmland Industries; Crowley County Turkey Growers Association, Crowley, Colo., formed in 1923; Wind River Turkey Marketing Cooperative Association, Lander, Wyo., formed in 1925; Oregon Turkey Growers, Salem, in 1928; and California Turkey Growers, San Francisco, in 1929.

During the 1930's other associations were formed in the West and in Iowa, Nebraska, and Minnesota. Examples were: Antelope Valley Tur-

key Growers, Lancaster, Calif., and Ramona Turkey Growers, Ramona, Calif., both in 1931; Southern California Turkey Growers, Mentone, in 1936; Turkey Growers Cooperative of Central California, Selma, in 1936; Moroni Feed Company, Moroni, Utah, in 1938; and Nebraska Turkey Growers, Gibbon, formed in 1936. Also, the Rockingham Poultry Marketing Cooperative, Inc., of Broadway, Va., was organized in 1939. Most of these are still in operation.

At least 11 turkey associations in 8 States began business in the 1940's. One of the more significant developments was the formation of four turkey marketing cooperatives in Minnesota and two in California. These two States became the world's leading turkey production areas and much of the success of the turkey industry there was attributable to the timely formation and operation of marketing cooperatives.

During the 1960's two regional cooperatives began marketing and processing turkeys: Land O'Lakes, Minneapolis, Minn., and Farmland Industries, Kansas City, Mo., both federated multiproduct marketing/purchasing regionals.

Most of these early cooperative turkey marketing ventures started as small local pools. They were formed because a need developed quickly for outlets that could alleviate local surpluses. Farmers, on discovering they could produce turkeys quite easily in many areas, soon expanded but without provision for marketing.

The pools, while a temporary solution, handled small volumes and thus were rather limited in potential value to their members. To correct this, they first joined with other local pools in forming sectional or Statewide marketing associations such as the Northern and Southern Montana Poultry Associations and the Nevada Turkey Growers Association.

The next step was a federation that could act for all members. In 1929, eight turkey associations formed the Northwestern Pool, soon officially named the Northwestern Turkey Growers Association, Salt Lake City, Utah. Within the first 5 years, this federation adopted the trademark "Norbest," and later changed its name to Norbest Turkey Growers. Initially, the federation's activities covered 10 Rocky Mountain and Pacific Coast States. Within a few years, it extended its dressed turkey activities nationally and opened sales offices in New York, Philadelphia, Los Angeles, San Francisco, and Chicago. Later it began marketing ready-to-cook turkeys and further-processed turkey products.

Another cooperative development was the marketing of turkey eggs and poults during the 1930's and early 1940's. Several cooperatives in California, like the Petaluma Cooperative Hatchery, Petaluma, and the Sycamore Fields Cooperative, Ramona, and some in Texas like the Cuero Turkey Association, Cuero, began marketing turkey hatching

eggs and later live poults from their own hatcheries. Their turkey egg marketing became a lucrative business because they could produce eggs early in the year without having to provide expensive heat for breeder flocks, and because seasonally early eggs brought a premium.

Cooperative turkey marketing during the past 50 years has been through several changes. After the initial flurry of new cooperative formations in the 1920's and 1930's an era of mergers, consolidations, and discontinuances resulted in fewer but more seasoned and stable organizations. These were able, along with their producers, to grow gradually during the 1950's.

But the later 1960's and early 1970's were unsettling to cooperative turkey production and marketing. Greatly increased costs of feed and other production needs, tightening of production credit, fluctuating and low prices for finished birds, and development of large integrated corporations discouraged many grower members and adversely affected their cooperatives. As a result, the number of cooperatives handling turkeys as their principal product declined from 60 in 1955 to 10 in 1980. Also, the number marketing hatching eggs and poults declined because of the development of large specialized breeders and more satisfactory sources of poults.

A recent development has been the formation of Far Best, Inc., a subsidiary of Indiana Farm Bureau Cooperative Association, Indianapolis, to grow, process, and market turkeys. Turkeys are raised under contract with growers and are processed in a plant at Huntingburg, purchased by the regional cooperative and two of its member associations.

Current Position

Many farmers still own and use cooperatives that provide turkey production, processing, and marketing services. In 1980, nine cooperatives had turkey net sales, exclusive of intercooperative business, of about $166 million. Five of the nine associations were specialized turkey marketing cooperatives, two were predominantly grain/farm supply cooperatives, one was mainly a dairy/livestock marketing cooperative, and one also marketed broilers and eggs. One of the five was a federated sales agency type of cooperative. Brief descriptions of three follow:

Land O'Lakes, Inc., Minneapolis, Minn., a regional cooperative, has for many years provided a number of integrated services directly for turkey producers. These include feed, equipment, heating fuel, hatching eggs and hatchery, production, financing, and field services. It operates processing and freezing plants for preparing whole ready-to-cook turkeys

and facilities for further-processing turkey into prepared foods such as turkey rolls and roasts. During the past 5 years, Land O'Lakes has marketed between 80 and 100 million pounds of turkey annually. It has three turkey processing plants, one further-processing plant, and one turkey hatchery.

Land O'Lakes has expanded its turkey marketing quite rapidly in recent years by acquiring the Central Cooperative Turkey Growers Marketing Association, Ellsworth, Iowa, and by utilizing marketing channels and methods developed over many years for butter and other dairy products. It has turkey marketing agreements with all producers and production contracts with about 12 percent. The remaining independent growers make their own production credit arrangements.

Moroni Feed Company, Moroni, Utah, is a fully integrated association, formed in 1937, that is owned by about 135 members. It provides complete services to independent growers from the breeder farm to wholesale markets.[1]

Total sales of turkeys and supplies by Moroni have ranged from $50 to $65 million a year during the past 5 years. The volume of turkeys processed has ranged from 40 to 42 million pounds a year during the same time. Annual sales of turkey feeds have ranged from 90,000 to 100,000 tons. Patronage returns from all departments have totaled between $1.8 million and $3.5 million annually.

Vertically integrated services are provided from a breeding farm, a hatchery, a diagnostic laboratory with veterinarians for disease control, a feed mill, farm supply and equipment store, service station, a modern processing plant with equipment for cutting-up and boning-out turkey and for further processing operations, cold storage warehouses, and refrigerated transport vans. The cooperative has a special financial assistance program for young farmers. The basic services provided by Moroni is shown in figure 2.

This cooperative uses several types of pools to provide equitable treatment to growers and spread risks among them in its effort to carry a full line of turkey sizes and grades. Further comments on pooling are included in a later section.

Norbest Turkey Growers, Salt Lake City, Utah, a sales and service federation formed in 1929 by 20 local and Statewide turkey marketing associations and pools in the Mountain and Pacific States. It now has six member cooperatives. Norbest is the largest turkey marketer in the

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[1]For an excellent case history of a turkey cooperative, see "Moroni Feed Company—Impact of a Cooperative on Sanpete County, Utah" by G. Alvin Carpenter, FC Research Report 13, Agricultural Cooperative Service, U.S. Department of Agriculture.

Figure 2—Basic Services Moroni Feed Co. Supplies to Turkey Producers, 1978

Production Services

1. Supply turkey poults for breeding
2. Provide LP gas for heating brooders
3. Mill feeds for turkeys and livestock
4. Make feather meal for livestock and export
5. Operate diagnostic laboratory service for disease control
6. Provide field service to producers
7. Offer advice on turkey production
8. Provide service station supplies/services
9. Handle general farm supplies and equipment

Marketing Services

10. Process and dress turkeys
11. Provide freezing and cold storage for turkeys
12. Further process turkeys
13. Market turkeys on year-round basis
14. Provide more stable prices through central control and orderly marketing

General Services

15. Provide financial assistance to young farmers and others
16. Supply credit on sound basis to members
17. Represent producers as voice of turkey industry
18. Sponsor community activities

world with volume ranging from 150 to 200 million pounds annually in the last 5 years. U.S. Grade A turkeys are sold under its "Norbest" trade name.

Norbest sells all turkeys of member cooperatives that they do not sell locally. It makes conservative advances to members on processed turkeys. In addition to marketing turkeys and hatching eggs, Norbest handles plant supplies for member associations.

A large percent of its turkeys are sold to institutions as whole ready-to-cook roasters. Important volumes are sold cut up and in the form of turkey rolls. It also exports considerable volume to Canada, Europe, Asia, and South America.

Extent of Vertical Integration

The turkey industry is one of the more highly integrated food production, processing, and marketing enterprises in the United States. It is estimated that more than 80 percent of all turkeys are produced by integrated firms. More than 50 percent of all turkeys are probably produced under contract, with about 30 percent of this volume by large integrated firms. In addition to having feed mills, hatcheries, and processing plants, some firms are also engaged in grain marketing. More than half of all turkeys are now further-processed with many going into processed food formulations.

In this economic climate, cooperatives have been hard pressed to match the economic strengths of competitors. Most turkey marketing cooperatives are integrated in varying degrees, but not as highly as some other firms (table 3). Most cooperatives integrated by first going into processing and then by marketing through their own national sales agencies. Then some integrated back into the production of feed, poults, and hatching eggs, along with other services. The third major phase was to engage in further processing, i.e., adding value through the preparation of cut-up parts, deboning of turkey meat, and the making of turkey rolls, bologna, frankfurters, boneless roasts, ham, pastrami, and salami. Data are not available on cooperatives' share of this market.

A few use production and marketing contracts under which member growers supply the facilities and labor, and the cooperatives supply the poults, feed, fuel, medications, and other services. In others, growers are responsible for production and sign marketing agreements that help the cooperative plants maintain processing schedules and sales commitments to buyers.

Methods of Operation

Most turkey marketing cooperatives operate on a pooling basis and use several types of pools. The most common are:

Storage Pool. Members receive an advance payment based on a percentage of current market value. They pay a stipulated rate per pound per month and other carrying costs. This pool may consist of birds processed in the fall or not sold by January 1.

Monthly Pool. Growers can elect to receive an advance against their turkeys in storage awaiting sale. Final settlement is made when the pool is closed out. A first-in, first-out sales policy is followed.

Seasonal Pool. These pools generally recognize that most whole bird sales are in late October, November, and early December, and that wholesale turkey prices will be highest at this time.

Yearly or Annual Pool. One pool may be established for Grades A, B, and C turkeys under a specified weight, such as less than 22 pounds. Another annual pool may be for turkeys of a higher weight such as 22 to 26 pounds by grades. And a third pool may be toms exceeding this weight.

Fresh Turkey Pool. Processing plants in high density consumer areas may offer fresh turkey during the holiday season. These birds may command a market premium but extra sanitary precautions are necessary.

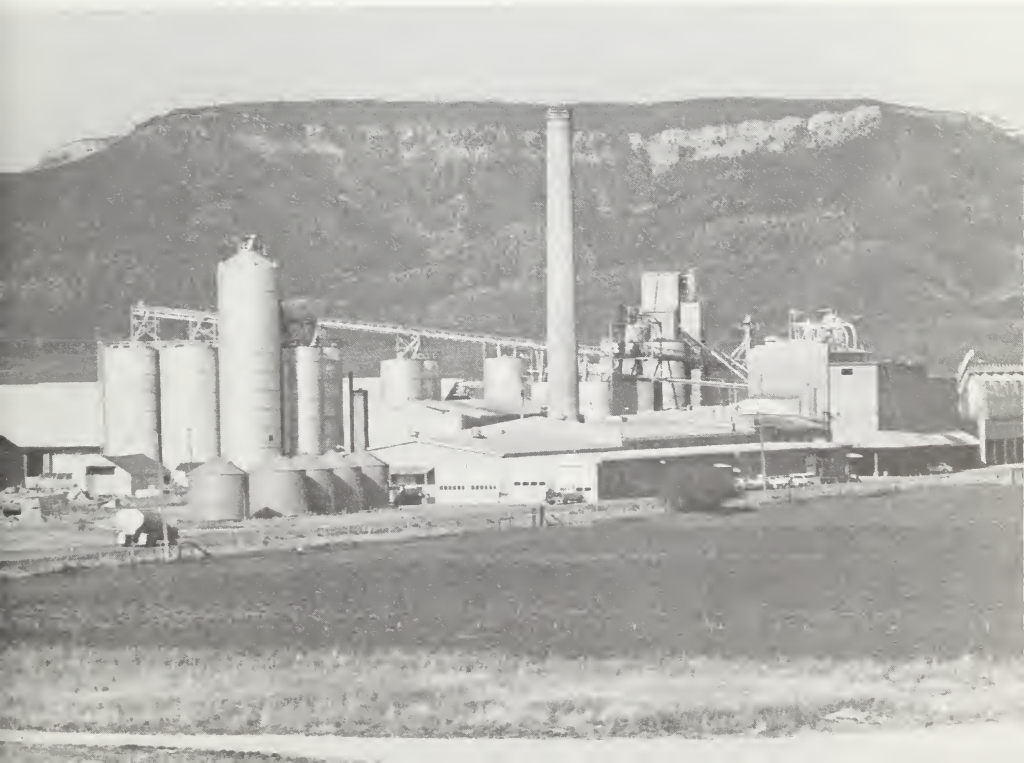
Cash Sales. Under this plan, growers deliver turkeys to processing plants for immediate cash sale. They will be offered in a national market at the highest price available. Plants with low volume may choose to buy live turkeys to gain plant volume and earn extra processing income. To avoid a speculative position, these plants may pre-sell turkeys, or buy live turkeys for immediate dressed sale.

The author of the Moroni Feed Company report believed that pooling has several advantages:

"An advantage of pooling is that it spreads market risks...Farmers, however, must be satisfied with a good average price and collective insurance at cost. With pooling, each grower does not try to cut the other's price. The competition is shifted to the buyers by the collective pooling arrangement and a much stronger strategic position in the sale of turkeys is achieved.

"Another definite advantage of pooling is that management is able to merchandise the products according to a program it considers most desirable and one that can be planned with more precision in advance...

Moroni Feed Company, a cooperative in Sanpete County, Utah, has been described in a profile publication of its operations as a turkey farmers cooperative that has "got it all together." Its operations and services range from research advice to packaged and branded consumer products.



"Pooling permits management to use more caution in placing and timing shipments to market demands and in developing new markets. No policy of orderly marketing is possible if everyone is free to sell locally or ship when and where he pleases...If cooperatives are to stabilize prices, pooling and centralized sales control on a large scale are absolutely essential...

"Pooling also facilitates financing the cooperative's operations. Associations that pool usually make a partial payment to growers at time of delivery of products. The products in the pool then become security for loans obtained from banks in order to make the advance payments...With this access to the central money markets, it is to be expected that a sound cooperative can obtain credit at lower rates than can the individual farmer...

"The pooling operations used by the Moroni Feed Company have been a very important factor in the growth and success of this integrated cooperative. Without such operations to handle the complicated problems of seasonal turkey marketing, it is doubtful that the organization would be operating effectively today."

Some cooperatives use a per-pound capital retain that is deducted from proceeds to growers. These member equities may be revolved or redeemed later from current members' retains. Others compute annual net margins and retain as much as 80 percent in a revolving fund until adequate member capital has been accumulated. Under Federal tax statutes, at least 20 percent of each year's patronage return must be paid in cash. Then the oldest patronage allocations are redeemed in order from current accumulations. The length of the revolving funds varies considerably but may be up to 15 years or more.

Organizations serving turkey cooperatives and growers are the National Turkey Federation, Reston, Va., a commodity trade organization; the National Council of Farmer Cooperatives (NCFC), Washington, D.C., a national cooperative trade association; and the American Institute of Cooperation (AIC), Washington, D.C., a national educational organization.

Benefits

One of the benefits of turkey marketing cooperatives is that they provide dependable, stable local processing and marketing services.

By operating essentially on a cost basis, cooperatives have maximized net returns to member-growers. The amount they received above going market prices is difficult to accurately determine in communities where no processing facilities exist, but returns of cooperatives may be compared with State averages.

One of the more successful cooperatives, Moroni Feed Company, has had patronage returns on total production supplies and processing/marketing operations ranging from $1.8 million to $3.5 million a year over the past 5 years. This was from 7.1 to 11.2 percent on total sales. Since it was organized in 1939, its total patronage returns have amounted to about $37 million.

Another cooperative benefit has been assistance to growers in improving farm practices. Cooperatives, along with master turkey breeders, have sponsored continuing testing programs to help develop types and strains of birds most economical to raise and that most nearly fit market specifications. They have worked closely with State experiment stations in breeding and turkey management research, and in developing feed formulas that produce the most efficient and economical growth.

Cooperatives have encouraged growers to develop and improve brooder houses, feeding equipment, feeding practices, and feed delivery systems. Most deliver feed in bulk but one even helped develop 8- to 9-ton trucks for farmers' use in picking up feed at the mill and augering it out mechanically. A few cooperatives have developed financing programs to assist young growers get started in the turkey business.

Norbest, the cooperative sales agency, has benefited its member cooperatives and their growers in numerous ways. It has reduced marketing costs, including those pertaining to packing, transportation, and advertising; increased both domestic and foreign market outlets; improved control over distribution; and helped bring about uniform and standardized grading and quality improvement.

Turkey cooperatives have exerted strong efforts to develop and maintain satisfactory standards and quality of product to meet both State and Federal specifications and market demands. They have Government inspectors and graders stationed in their processing plants, and comply with regulations pertaining to pesticide and drug residues to ensure that all sanitary requirements are met. Quick freezers and cold storage warehouses are part of their quality programs. Over the years, cooperatives' efficient feed conversion practices, lower production costs per pound, and quality programs have benefited consumers as well as members.

Challenges

With continued high operating costs, especially for energy and borrowed funds, turkey cooperatives must continue emphasizing cost controls and efficient operations. These involve, among others, use of modern labor-saving plants and office equipment, better plant layout, short-cut methods, improved material handling techniques, employee incentives, and sound equity and debt financing.

Cooperatives must give increasing attention to large producers, including family farm corporations, and possibly local feed firms that are producing turkeys. Their volume likely will be necessary to attain economies of scale needed for efficient operation. However, serving them could pose problems of equity in pricing, service charges, and control for medium- and small-scale growers.

Some cooperatives may find full integration with contract production services the route to remaining successful. Large multipurpose cooperatives that handle turkeys as a secondary activity may be in a better position than specialized turkey cooperatives because they rely less on one "profit" center.

The bright spot for turkey producers and their cooperatives may be increased use of turkey in further-processed convenience type foods. Further-processing increases manyfold the forms of turkey that are acceptable to consumers and likely will continue to increase year-round use of turkey. Such operations also may increase returns for members of cooperatives.

Another challenge is that of increasing exports. Turkey marketing cooperatives in concert with other cooperatives could be in a better position to provide resources to increase exports, and to develop working affiliations with foreign-based marketing and consumer cooperative associations.

COOPERATIVE MARKETING OF BROILERS

The third major segment of the poultry industry is the production and marketing of broilers. In the Pacific Northwest, they are called fryers.

Trends in Broiler Production and Receipts

In 1980, U.S. farmers produced 3.96 million broilers with a live weight of 15.5 billion pounds. This was 50 percent more than in 1970 and

250 percent more than in 1950. These data indicate an enormous growth in acceptance and use of broiler chicken meat in the past 30 years. Per capita consumption of chicken bears this out, increasing from 20.6 pounds per person in 1950 to 40.5 pounds in 1970 and 51.1 pounds in 1980. Most of this was broiler meat.

Gross income—the total of cash receipts and value of producer consumed broilers—in 1980 amounted to $4.3 billion, about three times that in 1970.

Broilers have gained overall consumer acceptance because of their nutritional and dietary value. Consumption is expected to increase in the next decade but more nearly parallel with increases in population.

Early Ventures in Cooperative Marketing

Cooperative broiler marketing developed later than egg and turkey marketing. By the early 1930's, several areas of the country were heavily into concentrated production of broilers, but the first cooperative for processing and marketing broilers was not organized until 1940. This association, the Rockingham Poultry Marketing Cooperative, Inc., Broadway, Va., has been a success and currently operates three processing plants in the Shenandoah Valley.

Most other cooperative broiler marketing endeavors developed between 1944 and 1970 when producers started 11 new cooperative broiler operations in 8 States. Two more were organized in the 1970's. Not all survived the perils of organization and the difficult early years.

One example was the failure of a complex of four local cooperatives formed during 1944 and 1945 on the Delmarva Peninsula (Delaware and the Eastern Shore of Maryland and Virginia) and their federated sales and service agency—the Eastern Poultry Cooperatives, Inc., headquartered originally in Wilmington, Del. According to observers at that time, the complex was expected to be successful because it was in an area of rapidly expanding broiler production; consumer acceptance of broilers was increasing by leaps; most of the producers there had several years of experience; the broiler processing and marketing industry was still relatively new and full of opportunities; and the cooperatives had the facilities and resources for a good beginning.

Instead, problems developed almost from the start. First, one of the four cooperatives withdrew from the federation, thereby weakening the sales structure. Next, waivering support on the part of some producers, who sold their birds to other operators whenever prices offered were slightly higher than those of their cooperatives, resulted in a fluctuating

volume available for processing. And overall lack of cooperative background and experience on the part of both management and members resulted in the associations being unable to cope with aggressive competition. Consequently, this promising complex was short lived.

In 1945, the Smiley Cooperative Association, Gonzales, Tex., began broiler marketing operations that lasted into the 1960's. In 1945, the Arkansas Farm Bureau Poultry Cooperative began broiler processing in Bentonville, Ark. In 1964, it merged with Farm Services Cooperative, Fayetteville, Ark., which in 1978 became a part of Gold Kist, Inc. Other broiler cooperatives were formed during the 1940's in Connecticut, New Jersey, and Hawaii.

During the late 1940's and in the 1950's several regional farm supply/marketing cooperatives in the East and Southeast added broiler production and marketing operations. One objective was to more fully utilize the capacity of their feed mills serving dairy and egg producers. These included the largest, Cotton Producers Association (now Gold Kist, Atlanta, Ga.); Farmers Cooperative Exchange, Raleigh, N.C., and Central Carolina Farmers Exchange, Durham, N.C. (now merged as FCX, Inc., Raleigh); Mississippi Federated Cooperatives, Jackson, Miss. (now MFC Services AAL, Madison, Miss.); Southern States Cooperative, Richmond, Va.; Pennsylvania Farm Bureau Cooperative Association, Harrisburg; Cooperative GLF Exchange, Ithaca, N.Y. (both of these are now a part of Agway Inc., Syracuse, N.Y.); and United Cooperative Farmers, Fitchburg, Mass.

Most of these contracted with growers to produce broilers who used their labor and buildings. The cooperatives supplied the chicks, feed, medications, and field service and did the processing and marketing. Most cooperatives suffered substantial losses during the years of very low broiler prices. Also, broiler production was shifting to the South because of more favorable climate and lower production costs. So by the early 1960's, all of these cooperatives except Gold Kist, Central Carolina Farmers Exchange, and MFC Services had discontinued broiler operations.

Another kind of group effort by broiler producers began in 1952 with the organization of broiler auctions. Some were nonprofit, but only the Westminster (Md.) Cooperative Poultry Producers Auction was an authentic cooperative broiler auction. It continued to provide a reliable price discovery mechanism for Delmarva growers until 1959. All had ceased operation by the mid-1970's.

Cooperative broiler operations never developed in large numbers mainly because of the nature of the broiler industry development. Very rapid growth and commercialization, concentration in a few areas of

intense production in the South, attractiveness to large feed manufacturers and processors, rapid development of vertical integration—including contracting with growers to minimize their risks, economies of scale among producers, large capital requirements, cyclical prices, and substantial risks, among others, all served to discourage development of broiler cooperatives.

Current Position

In 1980, seven associations had active broiler production and marketing operations. Six were in the midst of heaviest broiler production in the South.

Of the seven associations, three were specialized poultry cooperatives: Marell Poultry Company, Murrayville, Ga.; Mar-Jac Poultry Company, Gainesville, Ga.; and Rockingham Poultry Marketing Cooperative, Broadway, Va.

Four were diversified marketing/supply cooperatives, namely, Gold Kist, Atlanta, Ga.; MFC Services, Madison, Miss.; Central Carolina Farmers, Durham, N.C.; and A&G Cooperative Creamery, Arcadia, Wis. However, since 1980 Central Carolina Farmers has merged with FCX, Inc., Raleigh, N.C. In the late 1970's Western Farmers Association, Seattle, Wash., discontinued its long-time fryer operations.

The ninth association, A&G Creamery, Ashland, Wis., although not as large in broiler marketing as the others, was important to producers in its area.

Broiler sales of the 7 cooperatives in 1980 totaled about $682 million compared with 1975 sales of $367 million by 10 cooperatives.

Cooperative broiler marketing steadily gained prominence between 1965 and 1975. According to a private study[2], 3 of the 10 cooperatives with broiler operations at the beginning of 1976 were among the top 30 processor-marketers. In bird processing capacity, Gold Kist ranked second with an estimated 4.5 million to 5 million birds per week; Rockingham Poultry was twentieth with about 0.8 million; and MFC Services was twenty-third with 0.75 million.

A brief description of the broiler operations of *Gold Kist Inc., Atlanta, Ga.*, the leading cooperative in this activity follows:

Development Over 40 Years—Gold Kist, formerly Cotton Producers Association, entered the poultry industry by supplying feed to producers in 1942-43. By the end of the decade, it had a hatchery and was financing

[2]Haffert, William A. Top 50 Broiler Companies—They Do 90% of U.S. Business. *Broiler Industry*, Vol. 40, No. 12, pp. 16-20. December 1977.

some broiler producers who wanted to supplement their income from decreasing cotton acreage allotments.

In 1951 and 1952, Gold Kist's feed division acquired two processing plants in Georgia. One had freezer facilities and a byproducts plant for processing waste for use in feed and fertilizer. Also, Gold Kist began developing contract breeder flocks to supply its hatchery requirements. It set up a poultry marketing division in 1952, and later acquired two more processing plants and hatcheries, and adopted a weighted feed conversion contract with base guarantee payments to growers that recognized their efficiency in growing broilers. Gold Kist made its first exports to the Federation of Grocery Cooperatives in Zurich, Switzerland, in 1959. By fiscal 1960-61, its poultry division sales reached $35 million, or 171 million pounds live weight.

A coordinated or contractual system of integration rather than cooperative ownership was used because many farmers had facilities available thus minimizing capital requirements for the cooperative; farmers were willing to sell their services at relatively low rates because alternatives were few; the plan avoided the costs of social security, workers compensation, and other employee benefits; and it avoided the question of whether a cooperative should produce farm products in competition with individual farmers.

The 1960's and 1970's was a period of modernization and expansion. A completely integrated complex was established at Live Oak, Fla. Hatcheries were increased to 11 with a capacity of 2,230,000 chicks a week. On January 1, 1965, a joint broiler venture was effected with Central Carolina Farmers Exchange, Durham, N.C. In 1966, Gold Kist constructed a 32,000-ton fishmeal plant near Lima, Peru, and bought 10 fishing boats, and later built a plant to package consumer poultry products. In 1967-68, exports of broiler parts accounted for 15 percent of Gold Kist poultry volume.

In 1978, Gold Kist's eighth broiler division was added by the merger of the Farm Service Cooperative, Fayetteville, Ark. Three new distribution centers for poultry and other meat products brought the total to 11. In fiscal 1978-79 broiler product sales reached about $357 million.

Current Status— At the end of 1982, Gold Kist operated nine broiler divisions within its poultry group. Each decentralized complex included broiler flocks, pullet and breeder (hatching egg) flocks, one or more hatcheries, a feed mill, poultry processing plants and sales offices, and transportation facilities.

Each broiler division purchased breeder hens and cockerels as day-old chicks from primary breeder stock companies that continually conduct genetic research to produce superior breeds. Flocks of these chicks

were delivered to pullet flock growers who are independent contractors, but not members of Gold Kist for this purpose. The pullet flock growers raised the chicks to pullets, using feed and medicines that Gold Kist supplies for a fee. These flocks were then delivered to a hatching egg flock contractor who used Gold Kist feeds and medicines in producing hatching eggs for Gold Kist hatcheries. This contractor also was paid a fee with incentives but he was not a member of Gold Kist for this purpose.

Gold Kist hatcheries sold the day-old chicks to broiler-producer patrons at cost. These producers also purchased Gold Kist feed and medicines at cost and raised the flock of chicks to broilers that Gold Kist processed and marketed. The broiler producers were member-patrons of Gold Kist and eligible to participate in patronage refunds. The only exception was the North Carolina complex where producers were members of FCX, Inc., who had a joint broiler venture with Gold Kist.

The principal poultry products Gold Kist marketed were whole and cut-up chickens, and segregated chicken parts packaged in three forms: (1) ice pack, sold primarily to distributors, grocery stores, and fast food chains; (2) chill pack for retail sale is kept chilled by mechanical refrigeration from the packing plant to the store counter. Some is sold under the "Young'N Tender Brand" label, but a large volume is sold under customers' private labels; and (3) frozen that is marketed primarily to school systems, military services, fast food chains, and in the export market. Most carries the "Gold Kist" or "Early Bird" labels. Cornish game hens are marketed frozen primarily to hotels, restaurants, and grocery stores under the "Young'N Tender Brand" label.

In mid-1983, Gold Kist operated 17 hatcheries—7 in Alabama, 6 in Georgia, and 1 each in Florida, North Carolina, Texas, and Arkansas—with a total weekly capacity (85 percent hatch) of 7,436,000 chicks.

It operated 10 processing plants with a total capacity of 7,245,000 broilers a week and 315,000 cornish game hens a week; and 1 plant with a capacity of 245,000 cornish game hens a week. Three plants are in Alabama, four in Georgia, and one each in Florida, North Carolina, Texas, and Arkansas. Also, Gold Kist operated four offal rendering plants; eight single-purpose poultry (broiler) feed mills with a total annual capacity of 1,351,000 tons (three-shift operations); and one mixed animal and broiler feed mill with a capacity of 185,000 tons a year.

Gold Kist is one of the larger broiler contract producers, processors, and marketers in the United States. It competes on the basis of price, service, and quality with special attention given to shelf life of the product. Among factors affecting quality are method of processing, sanitation practices, and the quality of storage.

Gold Kist's sales of broiler products have increased from $199 mil-

Gold Kist Inc., Atlanta, Ga., conducts highly integrated poultry operations with contract growers, including contracting for breeder flocks to supply its hatchery requirements.

lion in fiscal 1977 to about $486 million in fiscal 1982. Last year, gross exports of poultry totaled about $24 million—mostly to the Middle East, Far East, and Caribbean.

Net margins, before income taxes and patronage returns, have varied greatly due to the cyclical nature of the broiler industry where small changes in product prices, feed, energy, and interest costs greatly affect operating results. The poultry group, mostly broilers, realized (before income taxes) a loss of $14.4 million in 1980, and net margins of $8.7 million in 1981, and $0.7 million in 1982. In the 3 years ending in 1977-79, net margins were about $6.3 million, $24.1 million, and $44.1 million, respectively. Patronage returns declared on broilers during the past 6 years have ranged from none to $1.05 per hundredweight.

Extent of Vertical Integration

The broiler industry is the most intensively integrated of all food production, processing, and marketing enterprises. In 1978, all 13 cooperatives handling broilers contracted for their production, 12 processed, 10 further processed, all marketed, and 9 manufactured feed (table 3).

Cooperatives as well as other integrators have found it advisable to control and schedule production to provide a steady and dependable supply of broilers for processing and sale. To do this, they contract with breeders for eggs, operate hatcheries, and contract with growers for labor and buildings and provide the growers with chicks, feed from their own mills, medications, and management assistance. They operate broiler processing and quick freezing plants, cold storage facilities, transport vans, feather and offal rendering plants, and further processing plants. The cooperatives not using grower contracts depend on growers making their own arrangements for chicks, feed, medication, and fuel.

Methods of Operation

Growers Under Contract

Growers usually are paid a specified amount per pound to produce broilers based upon their rate of performance compared with other producers in the same week. Some cooperatives pay growers a specified amount per bird; others guarantee the grower a specified amount per pound with any overage or net gain going to the growers. Performance includes rate of feed conversion and livability.

Growers usually are members but are not paid patronage returns from any net margins on broiler operations. This is especially so if other types of members such as dairy producers believe a disproportionate amount of resources and risks are involved in broiler operations.

Growers agree to accept and grow out the broiler chicks to marketable broilers; to disinfect premises and buildings; to provide fuel, electric power, and labor; to sign delivery receipts for all feed and other supplies; and to return all feed and other supplies on hand at the time broilers are removed from the farm. Growers usually feed out 5-6 lots a year, using 6-7 weeks for growing and 2 weeks for sanitation measures.

The cooperative agrees to hatch, own, and supply broiler chicks, feed, grit, sanitation supplies, and medications required to properly raise the chicks into healthy marketable broilers; to provide the growers technical management assistance; and to remove the broilers from growers' farms to its processing plant within a specified number of days after the chicks have been placed on the farms.

Growers Not Under Production Contracts

Cooperatives usually have few, if any, member growers who independently produce broilers and market through them. In such cases, the growers usually purchase feed and other supplies from the cooperative and receive patronage returns.

Organizations Serving Broiler Cooperatives

Commodity-type trade associations serving broiler cooperatives and growers are the National Broiler Council, Washington; Southeast Poultry and Egg Association, Decatur, Ga.; and the Poultry and Egg Institute, Arlington, Va.; in addition to the NCFC and AIC mentioned earlier.

Benefits

Cooperatives provide production and marketing services that enable growers to produce broilers without assuming the major financing and risks from erratic markets. Cooperatives enable growers to remain in the broiler business by contracting with farmer-owned integrators. Otherwise they would have to change to another farm enterprise or another occupation. Broilers have enabled diversified food marketing cooperatives to offer consumers a more complete line of food products, and to spread overhead costs over a larger volume of sales. However, the cooperatives also have had to assume additional risks as well.

Challenges Ahead

Cooperative broiler marketing has experienced many changes in the past two decades. Most associations have found it necessary to become highly integrated in both production and marketing to survive. The smaller, weaker ones and those who have a disadvantage in feed costs and climatic conditions have discontinued operations or merged into large regional marketing/supply cooperatives.

Cooperatives will in the next decade face the challenge of keeping broiler operations efficient and minimizing losses in years of low broiler prices. Accumulation of reserves in good years would be helpful but is difficult because of the large capital requirements and high interest rates and expenses.

Integrated and diversified cooperatives with contract growers must pay attention to membership problems. This includes determining the maximum percent of assets to use in broiler operations versus those in dairy, livestock, or crop operations. Co-ops must know what losses can be sustained in bad years without causing an unreasonable effect on the patronage returns and equities of other types of members. Another challenge is to develop ways of making contract growers feel they are full-fledged members rather than piecemeal workers even though they represent only a small percent of the total members.

The few remaining specialized broiler cooperatives likely will face the challenge of remaining successful. They might find it helpful to study the policies and practices of the specialized turkey cooperatives. If they have to increase contract production, it would involve all members sharing risks, gains, and losses of both production as well as marketing over a period of time. Cooperative farming of crops on a smaller, less intensified scale usually has not been successful in this country.

Another challenge for both types of broiler cooperatives is the development of more exports. At least two co-ops have established special departments and personnel for this purpose. Broiler marketing cooperatives might consider forming a national cooperative sales agency similar to the one the turkey cooperatives have for handling and developing international trade operations.

A challenge facing many contract growers for integrated firms is to obtain a fair and reasonable return on their facilities and labor. The problem may be characterized as producer equity and extent of producer involvement in decisionmaking. Some growers have formed bargaining associations and others have considered this approach. Some question whether they have the necessary bargaining power, or whether such activity would jeopardize contractual relationships with integrators.

COOPERATIVE MARKETING OF OTHER POULTRY

Farmer cooperatives help egg producers dispose of their "spent" fowl and help other producers market specialty poultry such as duck and squab.

Fowl

Cooperative fowl marketing, in one form or another, has been carried on since 1900, as long as cooperative egg marketing. Cooperatives marketing members' eggs usually have also marketed their chickens. These consisted of young male chickens (springers) marketed early each year and spent hens or culled layers (fowl), sold later in the year. In early days, the cooperatives simply assembled and segregated marketable lots of live birds for direct sale to shippers or by auction. Later, some of the larger cooperatives close to cities acquired poultry slaughtering and dressing plants. Still later, in the 1940's and early 1950's, some added equipment to eviscerate and prepare ready-to-cook birds.

With the advent and phenomenal growth in consumer demand for broilers and the development of large commercial egg production units, the resulting decline in farm chickens spelled the end of most cooperative fowl marketing efforts.

In the past few years, however, several cooperative fowl marketing operations have again emerged to help dispose of spent fowl. In 1975, the latest year data were assembled, 12 associations carried on some type of fowl marketing activity. Five were primarily poultry associations. These efforts collectively resulted in a total volume of $9.6 million. In 1980, five or six marketed fowl with four reporting total sales of $4.4 million.

Three associations had plants—mostly broiler—in which they processed members' spent hens and some fowl purchased from nonmembers. These were Rockingham Poultry Marketing Cooperative, Broadway, Va.; MFC Services, Madison, Miss.; and Farm Services Cooperative, Fayetteville, Ark. (now a part of Gold Kist).

Two associations were primarily auctions that sold small lots of live hens to highest bidders. These were Livestock Co-op Auction Marketing Association, Hackettstown, N.J.; and Chatham Area Auction Cooperative, Inc., Chatham, N.Y.

Three associations marketed spent hens from cooperative-owned breeder, hatchery or layer flocks. These were Agway Inc., Syracuse, N.Y.; Intercounty Farmers Cooperative Association, Woodridge, N.Y.;

and Hilo Egg and Poultry Producers Cooperative, Hilo, Hawaii.

Three regional associations, i.e., National Egg Company, Atlanta, Ga.; Pennsylvania Agricultural Cooperative Marketing Association, Camp Hill; and Farmers Agricultural Cooperative Trading Society (FACTS), Waltham, Mass., assisted egg producers in disposing of spent fowl.

FACTS, a Farm Bureau-sponsored cooperative formed in 1961, is the only association that was formed strictly for this purpose. It finds buyers, arranges for sale to the highest bidders, and arranges for hauling for which it receives a commission. Since it began, it has done much to put orderliness into fowl marketing in New England, New York, New Jersey, and Pennsylvania.

These types of fowl marketing endeavors have small volumes, but their value lies in the services made available to egg producers who, at times in the past, had to take low prices for their fowl, or even had to burn birds for lack of a ready market.

Ducks

Cooperative duck marketing first became a reality with the formation in 1916 of the Massachusetts Duck Growers Cooperative Association, Andover. This association continued to perform successfully for 45 years. In 1961, however, it ceased operations because duck production in its area decreased below the volume needed for economic operations.

The Long Island Duck Growers Marketing Cooperative, Riverhead, N.Y., was formed in 1949; the Riverhead Duck Processing Cooperative, Riverhead, N.Y., began in 1953; and the Long Island Duck Growers Marketing Cooperative, Eastport, N.Y., started a few years later. These three combined in 1961 to form the Long Island Duck Farmers Cooperative, Eastport, N.Y. It processes, packs, stores, markets, and merchandises the output of its members primarily to the food service industry.

Although duckling is considered a specialty item, its popularity in full service restaurants and hotel/motel dining has grown substantially in recent years. During the 1960's and until 1975, U.S. duckling production has grown steadily, reaching an estimated 20 million head in 1982. A leading restaurant and institution magazine's survey to prepare its annual menu census showed that about 30 percent of the full service restaurants and hotel operations carried duckling on their menus and about 70 percent of these rated duckling as a "good seller." This usage equals that of Chicken Kiev, Chicken Cordon Bleu, and Rock Cornish Hen, according to the census figures. Restaurant operators consider duckling as

moderately priced, versatile, and attractive as a promotional item. Due to year-round promotional efforts and more intense distribution networks, duckling is available in supermarkets throughout the country.

Squab

In the United States, a small number of producers raise squab (specially bred young Hasting pigeons) for a gourmet and culturally tied demand. Since 1943, a fluctuating membership—now about 40—has supported a marketing association—the Squab Producers of California at Hayward. It annually processes and markets more than $1 million worth of squab and other game birds. This is a good example of how a simply structured small cooperative can effectively serve a small group of growers who produce a specialty item.

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U.S. Department of Agriculture
Agricultural Cooperative Service

Agricultural Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The agency publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.