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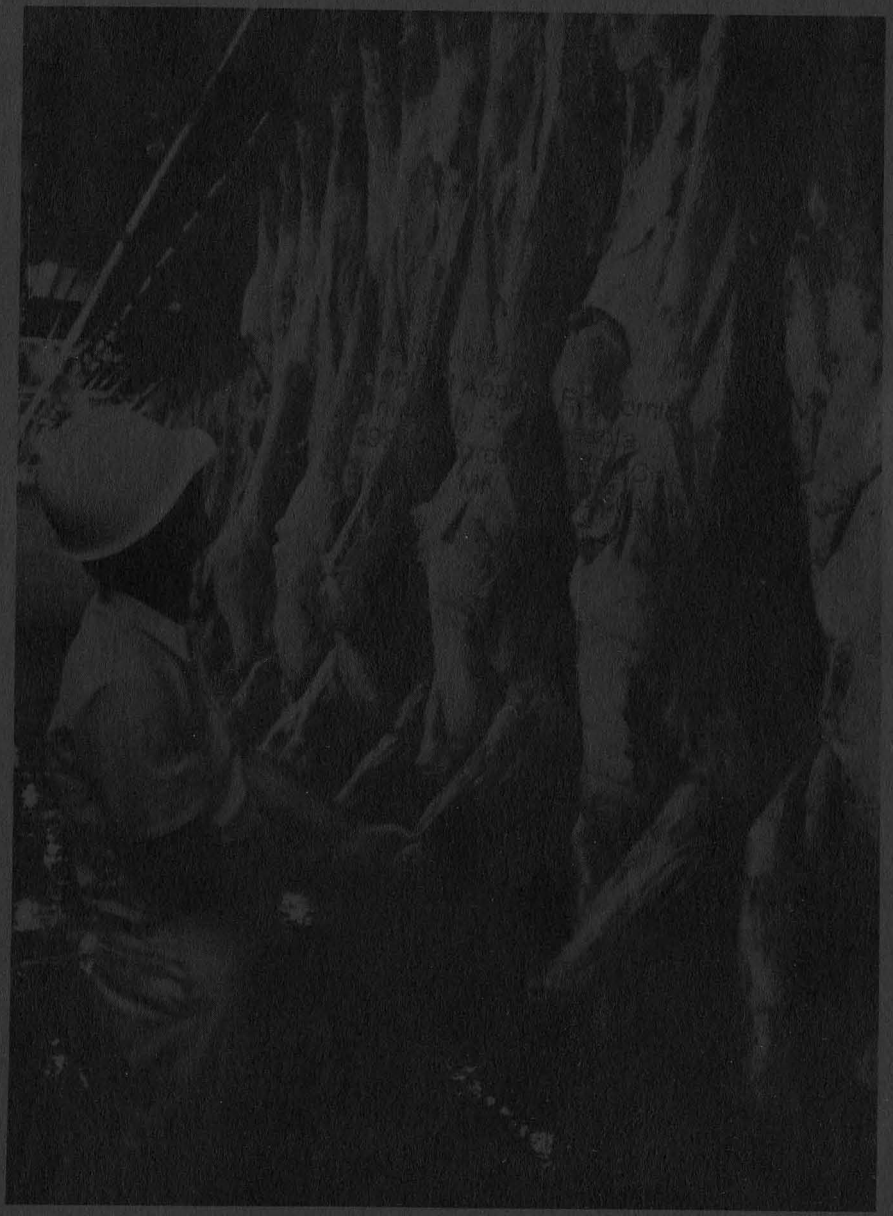
Organizing Meatpacking Cooperatives

Recent Producer Attempts



Abstract

ORGANIZING MEATPACKING COOPERATIVES: RECENT PRODUCER ATTEMPTS. By Julie A. Hogeland, Agricultural Cooperative Service, U.S. Department of Agriculture. Research Report No. 11.

Montana Livestock Cooperative and the Utah-based Intermountain Livestock Packing Association are meatpacking cooperatives established through equity and livestock commitments by producers. Their goals are to obtain sufficient capital to construct and operate a slaughter/processing plant. Member involvement requires a comprehensive feasibility study to show need for the plant and an understanding of cooperative organization.

Key words: meatpacking plants, cooperatives, livestock production, Montana, Utah, new business formation, Farmers' Union.

Preface

The purposes of this case study were to:

1. Describe the trends in the meat industry with emphasis on those that affected producers and packers in Montana and Utah in the 1970's.

2. Review the organizational efforts of Montana Livestock Cooperative and the Intermountain Livestock Packing Association.

3. Indicate the successes and failures experienced by each cooperative.

4. Use the experience of the two cooperatives to provide guidelines for future producer forays into meatpacking.

Information for this study came from 37 confidential interviews conducted by the author: 27 interviews were in person and 10 by phone. The persons interviewed for the Montana Livestock Cooperative section of the study included six from the Cooperative Extension Service, five from community development agencies in the Great Falls area, three from the financial community, two from private business interests opposed to the cooperative, and one each from a consulting firm, two prominent area farm organizations, and two established cooperatives that had experiences applicable to MLC. Five persons interviewed were directly affiliated with MLC as either a producer-member, director, or employee.

The breakdown for ILPA was: two persons from the financial community, five from other farm organizations (three were members or directors of ILPA), two who were directors and/or founders of the cooperative, and one each from a community development agency and the Cooperative Extension Service.

Information received from interviews overlapped somewhat. Those interviewed from established cooperatives, the financial community, and the board of directors were able to comment on the situation affecting both MLC and ILPA. They also provided information on the attitudes of producers who produced a particular species of livestock and who were not members of the cooperative.

No attempt was made to critique the numbers each cooperative used to determine that more slaughter capacity was necessary, because this study was not meant to evaluate the feasibility of the proposed operations.

Summary

Montana Livestock Cooperative and the Utah-based Intermountain Livestock Packing Association are meatpacking cooperatives established with the equity contributions of area livestock producers. Over the past 3 to 5 years, each has been attempting to obtain sufficient capital to construct and operate a slaughter/processing plant. Two requirements for successful cooperative action were underscored by this case study: (1) The need for the meatpacking facility must be firmly established via feasibility studies, and (2) potential members must understand and accept the necessity for commitments of money and livestock. The experiences of MLC and ILPA offer lessons for future producer participation in cooperative meatpacking.

Much of the difficulty experienced by MLC and ILPA can be attributed to the fact that many producers in Montana and Utah did not understand how cooperatives work. Producers required a personal explanation of the benefits to membership from someone with a farm background and appearance. Otherwise, they were reluctant to ask questions. After experimenting with alternatives, MLC and ILPA now meet with six or seven producers at a time in areas with high concentrations of livestock. The cooperatives have also learned to stress the dollars-and-cents advantages of membership along with cooperative philosophy.

Livestock producers pride themselves on their independence, making group action difficult. Consequently, many producers saw the commitment of livestock to the cooperative as a way to avoid competitive pressure. MLC and ILPA found that before livestock producers would become members, they had to be educated about the meat industry and cooperative structure.

Results of the feasibility studies did not convince producers that their areas needed additional meatpacking facilities. This happened because the studies received limited circulation, and because some parts of the analysis were weak. The studies also lacked a comprehensive review of recent trends in the meatpacking industry. This led the cooperatives to overlook the importance of market development or rapid acquisition of processing equipment. Feedlot development plans to support the meatpacking plants needed further work. The studies did not challenge many producers' opinions that the meat industry was unprofitable and unstable.

Some farm organizations were reluctant to endorse the new cooperatives because of personality conflicts and also because the economics of the proposed operations were not established to their

satisfaction. Farm groups with differences of opinion need a forum for discussion. So that farm organizations could work together more effectively, supporters of MLC established a coalition of agricultural groups in the State legislature. This type of action can prevent acceptance of a new meatpacking cooperative from being linked to extraneous issues.

The timing of the organizing efforts has also impeded the progress of the cooperatives. Producers have been squeezed by high interest rates and declining competition for livestock. They react by either dropping out of production, feeding animals out of State, or trying to pit the remaining buyers of slaughter livestock against each another. These conditions complicate formation of a meatpacking cooperative. Decreases in the supply of livestock can decrease the efficiency of plant operations. Increasing local feeding operations requires interim financing to carry ranch operations through the feeding period. Producers' desire to have as many buyers as possible competing for their animals can result in a competitive attitude, limiting effective group action through a cooperative.

Obtaining the reaction of producers to the feasibility study recommendations helps to identify issues which may slow commitment to the cooperative. In Montana, evidence suggests producers preferred a smaller plant size than that advised by the primary feasibility study. If plant capacity were less, producers would not need to make personal changes in their own operations to accommodate the seasonal needs of the plant. Equity requirements would be less for a smaller plant. A lower plant capacity implied that the cooperative could market locally, and not depend on distant markets aggressively serviced by other packers. These uncertainties helped convince producers that cooperative meatpacking was too risky.

Since project deadlines were not enforced, producers and other farm organizations adopted a "wait and see" attitude toward MLC or ILPA. As time passed without plant construction, the cooperatives had more and more difficulty persuading ranchers that the projects were to be taken seriously. The delay in clarifying the economic advantages from participation meant that other individuals and farm organizations had an opportunity to remind producers that the meatpacking industry was unprofitable and that other cooperative ventures started by livestock producers had not worked out.

In an effort to boost credibility, one of the cooperatives studied contacted a midwestern cooperative already engaged in meatpacking. The latter emphasized the importance of identifying appropriate markets

for the products of the new cooperative, taking into account volume, quality, degree of processing, competitive advantages, and location. Joint action between a new and an already established cooperative must be based on specific economic advantages, not appeals to unity. The established cooperative noted several difficulties associated with using contracts for livestock procurement.

As demonstrated by the experiences of Montana Livestock Cooperative and the Intermountain Livestock Packing Association, there are four steps to establishing a meatpacking cooperative: (1) Establish an economic need for the plant; (2) educate producers about cooperatives; (3) establish a broad base of support among farm organizations; and (4) adhere to project deadlines.

The advantage offered by new meatpacking cooperatives lies in the producers' need for greater market access. Unless this need overrides other options for improving their marketing situation, the producer will not commit himself to cooperative meatpacking. Even if the need is obvious, members need to know the risks and benefits to this particular course of action. Cooperative meatpacking must be compatible with member attitudes toward their role in the livestock-meat marketing system.

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Julie A. Hogeland
Agricultural Economist

In the past several years, Montana producers have complained about the lack of competition for fed cattle. Market access was reduced by the 1974 closing of the Great Falls Packing Plant, and the 1976 closing of the Hygrade Plant in nearby Spokane.

Cudahy, Wilson, and Swift withdrew from Utah in the early 1970's, leaving behind outdated plants. Many Utah lambs and sheep must be transported to Los Angeles or San Angelo, Tex., for slaughter. Cattle slaughter has also declined. Many small packers in the area were forced out of business by higher labor costs and competition from packers producing processed beef.

This situation reflects many of the changes taking place nationwide in the meatpacking industry. Sales at terminal markets have given way to sales closer to livestock production areas. Consequently, many packing plants have lost their proximity to supply. Technological refinements in carcass packaging and processing have increased demands for capital. At the same time, labor and transportation costs have escalated. The closing of packing plants in response to these pressures has left many areas without adequate slaughter capacity. Producers may receive only one or two bids for animals ready to be marketed.

Many livestock producers in Montana and Utah have been anxious to have market competition restored. This need for more slaughter facilities has overriden other options for improving the livestock-meat marketing system. Because producers were unable to interest private investors in expanding facilities, they decided to establish their own meatpacking cooperative. Thus began the Montana Livestock Cooperative (MLC) and the Utah-based Intermountain Livestock Packing Association (ILPA).

But these cooperatives have had problems organizing—simply because of the very reason they came into being—the need for competitive markets. The fact that producers want as many buyers as possible competing for their animals can limit effective group action through a cooperative. Each cooperative has been struggling for the past 3 to 5 years to obtain sufficient commitments of money and livestock from producers to support a new plant.

Overview of Trends in the Meatpacking Industry

Today, the most efficient plants are highly automated and contained within a one-story structure. They specialize in a single species, and kill at daily rates of 1,500 to 2,000 head for cattle, 3,000 head for sheep, and 4,000 head for hogs. By using semi-skilled labor in an assembly line format, these plants can avoid the high costs of specialized meat cutters. Moreover, the newest plants are not tied to labor contracts which have steadily escalated wages and fringe benefits over the years.

Confronted with locational and operational disadvantages, many packers have shut down or switched from slaughter-only operations to meat processing. The latter is a higher margin activity because it generally involves using brand names. An intermediate step is cutting the carcass into primal or subprimal cuts, vacuum-packing the cuts, and boxing them for shipment. More than half of all fed beef is marketed in this "boxed beef" form. With this procedure, waste products such as bones and fat are not shipped to retailers and they do not need to employ labor to cut or fabricate the carcass. Frequently, retailers who have tried boxed beef later refuse to purchase carcasses.

Another industry trend is the growth in demand for hamburger, as a result of the popularity of fast-food outlets. Like boxed beef, this trend also means the packer must have specialized equipment.

These capital demands come at a time when high interest rates, inflation, and other risks are causing many producers to abandon livestock production. When these factors become less severe and producers consider reentering production, costs of rebuilding herds may have risen, making financing difficult to obtain. Moreover, producers are encouraged to permanently leave production where they see the competition for their livestock dwindling.

The number of animals available to slaughter can be limited also if other area packers tie up supplies through contracts or packer feeding. Consequently, many packers are squeezed between diminishing supplies for slaughter and a need to renovate their facilities.

Industry overcapacity aggravates the situation confronting packers. While new packers have been locating close to major livestock producing areas, those packers with less efficient locations have limped along on less than full capacity schedules. The high costs of plant shutdown, such as severance

pay for union workers, can encourage operating even at a reduced level. There are also psychological costs such as the end to a family enterprise or the loss of community goodwill incurred by layoffs and unemployment.

To counter such changes, aggressive new packers with superior locations, equipment, and labor advantages have emerged. Efficient operations allow them to frequently pay producers a better price than other packers. However, these highly efficient slaughterhouses are not always advantageous to producers because their large-scale operations and relatively low-cost labor enable the new packers to overcome competition and dominate the area. While these new packers are not found throughout the country, nor do they slaugher all species, their existence can reduce the number of bidders for a producer's livestock. Instead of five or six offers, the producer may be limited to two or three, or maybe only one.

History of Intermountain Livestock Packing Association

The history of the Intermountain Livestock Packing Association began in 1975 when the Wilson Packing Plant in Salt Lake City closed. This left only one large-volume packer in the State. Other packers, including some of the Nation's largest slaughterers, were approached by producer groups to fill the void. Iowa Beef Processors wanted to concentrate on the Midwest and on beef, not lamb. MBPXL also preferred to limit its locations, in its case, to the Midwest and the Southwest. Farmland Industries did not want to expand at that time, and others lacked the necessary financial resources. Twelve to fifteen packers were approached and all declined to enter the Intermountain region.

Producers in Colorado, Wyoming, Idaho, and Utah then met with local cooperative leaders and representatives of the Sacramento Bank for Cooperatives, which serves that area. Options such as pooling to improve the livestock-meat marketing situation were rejected in favor of expanding the area's slaughter capacity. Pooling did not solve the issue of inadequate market competition for livestock. Forming a livestock trade association, using Idaho as an example, also did not promise to substantially increase market access.

The experience of Sterling Colorado Beef[1] was an inducement to expand into

[1]For a detailed case study of Sterling, see *Cooperative Meatpacking: Lessons Learned From Sterling Colorado Beef Company,* Clement E. Ward. ACS Research Report No. 6. Washington, D.C.: U.S. Department of Agriculture, May, 1980.

cooperative meatpacking. Sterling Beef's initial operating level of 40 cattle per hour (the same level projected for ILPA) has expanded to 1,600 head daily.

Existing area plants had obsolete equipment and limited capacity for expansion so purchase or leasing was not feasible. The interest expressed by a major supermarket chain and a fast food outlet in the potential products of the cooperative prodded members into trying to construct a plant to meet their own needs.

About this time, Dr. Morris Taylor of Utah State University prepared a feasibility study urging that the capacity lost when the Wilson Plant shut down be replaced. A cooperatively organized meatpacking plant appeared to be the best way to improve the welfare of producers themselves.

Producers were impressed by the projected kill costs for the cooperative of $4 to $6 per head for lambs, versus the costs of two recently closed Denver plants, Montfort and United, which exceeded $6 per head. ILPA expected to kill fed cattle at a cost of $24 to $26 per head, whereas the costs of a well-known local packer exceeded $55. Processing lambs through the cooperative was expected to add at least 22.9 percent to the live price. (This assumes a pelt value of $15 and boxing and vacuum packing the lamb into two pieces.) Processing fed cattle into boxed beef, with the rest of the carcass in a primal cut breakdown, added 7 percent to the live animal price. Of course, one of the primary motives for establishing the cooperative was the price disparity between the Ogden area and other areas with more competition for slaughter livestock.

Producer support for forming a cooperative was measured through the numbers that attended meetings to improve the livestock-meat marketing system. Dr. Taylor estimated that 90 percent of those present wanted to take action; 80 to 90 percent specifically favored forming a meatpacking cooperative. Evidence suggests that most of the support for a cooperative initially came from the leadership of producer organizations who were already very familiar with the requirements and benefits of this type of structure.

The State Department of Agriculture, encouraged by Governor Mathiason, and several existing cooperative organizations offered substantial support.

Cash Valley Dairies and Western General Dairies began a letter campaign to encourage membership in ILPA. They urged members to allot $50 from their milk checks to cover ILPA's membership fees. State government officials wrote letters endorsing the cooperative. ILPA received an $18,000

grant from the Four Corners Regional Development Commission. (This is an association of the governors of Arizona, Utah, Colorado, and New Mexico, designed to promote development of these States.) The Utah Wool Growers Association, the Utah Cattlemen's Association, and the Utah Dairy Association each provided $1,000 to cover legal costs to develop the bylaws and the plant-engineering study. Community leaders and prominent livestock producers visited others in their area to encourage membership in ILPA.

The cooperative has been trying to organize for 3 years. As of July 1980, ILPA membership stood at 120 members, all of whom have committed money to the cooperative. Twenty-six members have committed livestock of all species. Dairymen have the greatest membership in ILPA but sheep producers have committed the most in money and livestock.

The minimum requirements for membership are: $25 for one share common stock (this purchases a voting right in the cooperative), $25 toward financial expenses (i.e., the costs of maintaining ILPA's escrow account), and $40 for one share preferred stock (this purchases a kill right, the right to kill one animal via the cooperative's facilities.)

ILPA has raised about one-tenth of its minimum capital requirements of $1.2 million. With this, the cooperative has purchased 300 acres at a prime industrial site. Provided ILPA can raise an additional $25,000, perhaps by borrowing on the land, it can arrange for plant construction. The cooperative would lease the plant with an option to buy. The $1.2 million would be used to finance an Industrial Development Revenue Bond and obtain additional funding through the Small Business Administration (U.S. Department of Commerce). The ultimate capital requirements for ILPA are $5 million for operating capital, and $5 million to purchase the plant.

Many factors have slowed the cooperative's progress. High interest rates have discouraged farmers and ranchers from investing in the cooperative. Funds deposited to ILPA's escrow account earn only 5 percent interest when the cost of borrowing seed money has risen well beyond 10 percent. Ironically, declines in competition for livestock, creating a cost-price squeeze, have increased producer interest in ILPA at a time when they can least afford additional investment.

Sheep and dairy producers were the most enthusiastic over the proposed plant, probably because lamb and cull cows were going to be the primary input to the plant. These producers' need for more slaughter capacity overshadowed their fears about the risks of the meatpacking industry. On the other hand, fed cattle producers preferred to ignore final markets in favor

of refining production practices such as feed conversion and weaning. They had grown used to having independent entities slaughter their cattle, and they felt that this would always be the case. Also, cattle producers were more apprehensive than other producer groups about the bankruptcies and instability of the meatpacking industry.

To obtain adequate producer support, a meatpacking cooperative is almost forced to have a multi-species plant so as to appeal to as many producers as possible.* (The exception would be Sterling Colorado Beef, where a handful of feeders made all necessary commitments of money and livestock to acquire meatpacking facilities.) However, multi-species plants are usually less efficient technologically than single species plants. Moreover, the marketing effort has to be fragmented among several products. Producers who foresaw that the cooperative might lack adequate volume for highly competitive markets were reluctant to invest.

This lack of enthusiastic support had a dampening effect on the cooperative's progress. Although efforts had been made to include all major area farm organizations in the discussions to improve the livestock marketing situation, the Wool Growers, the Dairymen's Association, and the Farmers' Union emerged as the backbone of the cooperative meatpacking project. The other farm organizations took a more passive and neutral role, observing the progress of the project from the sidelines.

This stance has led to some awkwardness between these organizations and the supporters of the cooperative during the 3-year effort to get the project going. Those not actively involved explained that other farm groups already had a prominent role in the process, and that the economics of the proposed meatpacking operation were not sufficiently developed to encourage more participation.

Another conflict also resulted from the special conditions in Utah. Some would model the cooperative after the successful turkey cooperative, Moroni Feed. Its operation has shown not only that joint action by producers can improve their marketing situation, but the cooperative can work on even partial commodity commitments by producers. Others look to the cherry industry, where total commitment of the grower's entire crop made cooperative action a success.

*This statement must be qualified by the geographic area, type of producers, and their volume. It is most applicable to areas of marginal slaughter livestock production.

Because cooperative meatpacking is a relatively new and untested concept, particularly when it is not an outgrowth of an established cooperative, a conservative approach has surfaced, particularly in the financial community. This conservatism favors the cherry model, and has pressured ILPA to obtain total herd commitments from producers. The organizers of ILPA, particularly Dr. Morris Taylor and its president Stephen Gillmor, would like full commitments, but have found considerable producer resistance to the idea.

ILPA also has suffered from the weaknesses of other cooperative ventures. In presentations where Land O'Lakes was touted as an example of outstanding cooperative action, others on the program noted that a recent effort to establish a cooperative hog slaughter plant in Grand Junction, Colo., failed due to insufficient volume. The farm organization which had supported the Colorado plant was reluctant to get involved in a similar attempt, a hesitation interpreted as condemnation by some ILPA supporters. This is an example of the ways in which the need for more slaughter capacity in Utah became clouded by other issues.

Personality conflicts also influenced acceptance of the cooperative. This also occurred in the case of Montana Livestock Cooperative, and appears to be an inevitable result of persons with strong personalities in one organization running up against their counterparts in other organizations. The unfortunate result was that some key endorsements were slow in coming to the aid of either MLC or ILPA. Because Utah lacks a forum to resolve differences among its agricultural groups, the effect of personality clashes was probably more apparent there than for MLC. Moreover, ILPA desired the overt support of the Church of Jesus Christ of Latter Day Saints, an extremely influential organization throughout the State. However, the Church preferred to remain aloof from involvement in commercial activities. It is yet one more factor which complicated acceptance of the cooperative among producers.

Many dairy producers have been unable to make a conceptual transition from a dairy cooperative to a meatpacking cooperative. Other producers do not understand how cooperatives work, so that ILPA has the responsibility of educating as well as convincing them that the area needs a new meatpacking facility. *All* types of producers seem to require a personal explanation of the benefits to membership. The cooperative's president, Stephen Gillmor, defined the biggest drawback to ILPA as the lack of a professional sales force to contact producers on a one-to-one basis. He has made extensive presentations to potential members, but others are unable to spare time from their own ranches to promote the cooperative.

With this type of setting, it is not surprising that ILPA has been unable to break ground for a plant. These same obstacles are apparent in the history of Montana Livestock Cooperative, which has been attempting to get operations underway for the past 5 years.

History of Montana Livestock Cooperative

As in the case of ILPA, the person who first suggested that cooperative meatpacking facilities were needed within the State was a university professor, Dr. Leslie Chalmers. His 1971 proposal called for 38 small plants to be established across Montana. Subsequently, the plan was narrowed to one large plant in Great Falls, with one or two other facilities to be constructed later in Billings or the Sydney-Glendive area. The Great Falls plant would slaughter both fed cattle and cull cows.

This report fired the imagination of cooperative leaders within the State, particularly Edward Melby, a director of CENEX. He saw that Montana producers of slaughter livestock were losing competitive markets. The Great Falls Packing Plant had closed in 1974 because facilities were obsolete, and the Hygrade plant in nearby Spokane shut down in 1976. Despite the presence of underutilized feedlots and ample barley supplies suitable for cattle feed, the trend to shipping cattle out-of-state for finishing and slaughter was steadily growing.

Dr. Chalmers had predicted that a 10-year educational effort would be necessary to overcome the individuality of Montana cattlemen and get their support for cooperative action. The core of support for cooperatives in the State was located in farmers who marketed their grain through cooperatives such as Grain Terminal Association (GTA) and the Farmers Union. The leadership of these organizations, particularly Arnold Peterson of GTA and Jim Stevens of the Montana Farmers Union, worked extensively with Melby to start a meatpacking cooperative. The Farmers Union financed the initial purchase of a 270-acre industrial tract. (This land was later bought by MLC.) CENEX, the Farmers Union, and GTA contributed legal advice. The Farmers Union also funded a plant feasibility study and worked to educate producers about cooperatives.

The cooperative orientation of the founders and the perceived need for more slaughter facilities appears to have precluded serious consideration of other options to improve the livestock-meat marketing system. However, they did consider expanding the Billings Public Auction Yard, which uses video tape to auction cattle, and becoming involved in the Foothills Livestock Association, which buys cattle on consignment from feeders.

Packers had been approached to establish facilities in Montana but, as in Utah, this location was outside their preferred domain. Both MLC's founders and many producers felt that the transportation costs to ship cattle to slaughter sites were far too high. The primary incentive to establish MLC was anticipated savings in transportation costs of up to $46 per head.

The enthusiasm of the MLC founders was reflected in an action-oriented scenario set forth in a 1975 press release:

1. Get the facts

2. Get a cooperative

3. Get a plan

4. Get the costs

5. Get the money

6. Get going!

As with ILPA, the stumbling block was getting the money. MLC's developers believed that for many years producers had been interested in establishing a local packing house. Dr. Lavon Sumption was hired by MLC's board of directors to direct the membership drive. But time and again the organizational schedule had to be adjusted. The 1976 plant construction date was reset for May 1977 and then again for September 1981. The developers of MLC began to realize that the educational effort called for by Dr. Chalmers was necessary after all. Indeed, the founders of both MLC and ILPA have said, "What has been done, if nothing else, is a tremendous educational effort." Producers want to fully understand how cooperatives operate before they will commit money or livestock.

Organizing efforts for MLC have been ongoing since 1975. As of July, 1980, the cooperative had raised about one-tenth of its total capital requirements of $5 million for plant construction and $5 million for operating capital. Three-hundred-sixty members have committed money and purchased kill rights for 26,000 to 27,000 cull cows or fed cattle. The support by members of grain marketing cooperatives has been insufficient to establish MLC because these producers lack the required cattle volume. The organizing effort has therefore received a new impetus through the appointment of Zack Stevens, formerly with the Montana Farm Bureau, as the new project director. Evidence suggests that most Montana cattlemen are members of the Farm Bureau or the National Cattlemen's Association.

The efforts of Stevens and Terry Murphy of the Montana Farmers' Union to establish a liaison among farm organizations in the State has prevented MLC from becoming a battleground for conflicting interests. Otherwise, many of the difficulties that stalled ILPA's organization have also adversely affected MLC. Moreover, MLC began its membership drive at the bottom of the cattle price cycle in 1975, when producers were unable or refused to consider additional expenditures. To invest in MLC, a producer must purchase one share of common stock at $100 and 50 shares of preferred stock (or 10 kill rights) at $500. To bolster income, the cooperative has begun selling kill rights for speculation purposes to the Great Falls business community.

Thus, forming a meatpacking cooperative through producer action can be a formidable task. The efforts of Land O'Lakes and Farmland Industries in cooperative meatpacking have been an extension of the parent cooperatives, and not, as in the case of MLC or ILPA, action based entirely on the resources of farmers and ranchers. MLC and ILPA have had to proceed on a trial and error basis in developing educational, marketing, and financial plans. Their experience can help other producer groups who want to form a meatpacking cooperative.

Development of the Marketing Strategy of the Cooperatives

In both Montana and Utah, studies and consultations exploring the potential for improving the livestock-meat marketing system stimulated the idea of forming a cooperative. The studies reviewed in this section, the Chalmers Report, the Ullman Study, the MLC Feasibility Study, the Economic Adjustment Program for Great Falls, and the ILPA Feasibility Study, provided specific direction for Montana Livestock Cooperative and the Intermountain Livestock Packing Association. Though each study lacked something, together they revealed that forming a cooperative to solve specific marketing problems is not a clear-cut process. Several attempts may be necessary before a satisfactory final structure has evolved. The studies also highlight what historically have been the salient characteristics and opportunities for developing the livestock marketing system in each State.

Each study was oriented toward establishing additional slaughter capacity in the two States. In the words of one director, "This seemed to be the most visible and dramatic way of improving the well-being of producers." The exodus of packers from the Northwest made many producers anxious to have the slaughter capacity of previous years restored. One way of increasing capacity was through a meatpacking cooperative based only on producer support. Yet the marketing options available to producers, however

limited, have allowed the luxury of choice between existing packers or feedlots and a meatpacking cooperative. There has been no existing crisis propelling producers toward cooperative marketing. Without a keenly felt need for a meatpacking cooperative, they have maintained an attitude of "wait and see," a passive participation.

One of the purposes of a feasibility study is to indicate the options available to producers under existing market conditions to improve their marketing situation. Coverage of recent industry trends demonstrates the necessity for a particular course of action. As an educational tool, the feasibility study itself helps create a "felt need" for a cooperative. A feasibility study should also indicate the steps and incentives necessary to move from the existing cattle marketing system to one including a meatpacking cooperative. These standards were applied to each of the studies reviewed.

Chalmers Study[2]

The primary result of the 1971 Chalmers report was the enthusiasm it aroused for establishing meatpacking cooperatives within Montana. Although farmers and ranchers had considered such a venture for several years, without the Chalmers proposal, the idea probably would never have advanced beyond the discussion stage.

The Chalmers study also provided direction for a newly organizing meatpacking cooperative by raising the issues of:

1. The number and size of plants and supporting feedlots

2. Seasonality and volume of supply

3. The need to educate producers about cooperatives

4. Financing for the new cooperative.

Dr. Chalmers proposed that 31 cooperative meatpacking plants should be organized across Montana. Each plant would have a capacity of 500 head per week, the minimum number to be efficient, according to Chalmers. Backing up the operations of each slaughter plant would be 300 feedermembers. The number 300 was based on the average number of cattle fed by Montana producers, fewer than 100 head annually, and the estimated 25,000 to 30,000 head needed for the yearly requirements of each plant.

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[2]Chalmers, Leslie E. "Economic Significance of a Vertically Integrated Cattle Feeding, Slaughtering and Marketing Cooperative for Montana." Bozeman, Montana, 1971.

The seasonality of the fed cattle supply in Montana would be offset by using price differentials to encourage year-round production. Output from several plants would be combined as required to meet market demand for fabricated carcasses and byproducts.

Decentralization of feedlots made large outlays of capital to build new facilities unnecessary. Additional cattle could be produced as needed through more intensive use of existing farms and ranches. Furthermore, smaller feeding operations created fewer waste disposal problems than one or two supersize facilities.

Establishing a fairly large number of plants would increase income and employment in many rural communities. Montana ranchers and farmers were expected to provide equity capital for the cooperative through membership subscriptions.

Ullman Study[3]

Some of the implications of the Chalmers proposal were further developed in a 1974 report by Winston Ullman, Farmer Cooperative Service. This report explored the potential for expanding Montana's feed and slaughter industry based on conditions at that time. It was not written specifically for the benefit of Montana Livestock Cooperative. However, it did highlight issues the cooperative needed to confront, such an increasing cattle feeding to offset seasonality, and identifying markets for slaughter beef from Montana.

In 1972, according to the report, Montana plants did not slaughter all available cattle within the State. Instead, cattle were exported to Washington, California, and Utah for slaughter, or to warmer climates for extended fall and winter feeding. The highly seasonal nature of cattle marketings in Montana was expected to affect the ability of a newly established plant to obtain a uniform supply for slaughter. The plant would need to compete in the local open market for fed cattle in a situation where relatively few were available for slaughter. The plant would also be competing for feeders with out-of-state buyers who might be able to offer more attractive prices.

The supply of feed grains in Montana appeared adequate to support feeding operations for each of the three possible sizes of slaughter plants.

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[3]Ullman, Winston K. *Expansion of Possibilities for the Livestock Feeding and Beef Packing Industry in Montana.* Washington, D.C.: U.S. Department of Agriculture, Farmer Cooperative Service, Service Report 140, July 1974.

Sufficient feed would therefore probably be also available to support an integrated feedlot-slaughter plant system.

As feedlot numbers increased, however, the system would have greater problems of supply coordination, underutilization, and financing. Cattle feeding frequently represented a marginal operation to an owner with only a small investment in facilities. These producers were "in and outers" in response to market fluctuations. Their operations may be contrasted with the scale and efficiency of large feedlots which spread investments in labor and equipment over a substantial number of animals. The efficiency of these feedlots is further increased by their turnover each year. Ullman concluded that an integrated feedlot-slaughter plant system needed a few large-volume feedlots with several turnovers to assure adequate supply.

Carcass beef production in Montana exceeded total consumer demand within the State. Montana's location suggested that out-of-State export markets could be found in Oregon, Washington, or Canada. Foreign export out of Seattle was also a possibility. These markets were not assured; consequently, a new slaughterer might be forced to enter the more competitive markets of the eastern United States and California.

MLC Feasibility Study[4]

Two years after publication of the Ullman study, Montana Livestock Cooperative contracted with a private consulting firm to study locating a slaughter plant within the Great Falls area. This report, identified here as the "MLC Feasibility Study," became the final outline of project plans. It confronted some of the difficulties surrounding expansion of cattle feeding and slaughter in Montana, such as those indicated in the reports by Chalmers and Ullman.

According to the report, additional packing plant capacity in Montana meant that producers who decided to finish cattle in-State could eliminate transportation costs incurred in hauling live animals to an out-of-State slaughter site. A cooperative meatpacking plant would further reduce transportation costs by shipping carcasses to area retailers.

A Great Falls location was recommended over alternative sites in Billings or the Sidney-Glendive area because of the presence of suitable property, sufficient labor, good transportation, and existing water rights. In part, these favorable factors resulted from the facilities of the defunct Great Falls Packing Plant.

[4]This report and its authors are confidential for the purposes of this study.

Critical areas such as energy availability and waste disposal were thoroughly covered in the report. The question of plant size and numbers was also resolved by setting a lower limit on slaughter capacity, and by restricting plant development to the Great Falls area until management had acquired additional resources for further construction. Slaughter capacity was set at 400 head daily based on the number of cattle feeders reported finishing during 1976 (156,568 head), and feedlot capacity. Based on a turnover of 2.5 times per year, existing feedlot facilities in 46 counties near Great Falls were sufficient to finish almost one million head of cattle annually. Ten percent of this capacity could furnish the entire yearly supply requirements for MLC.

The single most important factor affecting the success of a slaughter operation is an adequate supply of cattle. Feeders were surveyed on their willingness to expand operations given the possibility of an improved market for finished cattle within Montana. Most indicated they would. Presumably the inducements for feeders to change methods of operation would be the potential savings in transportation. However, some feeders were discouraged by the cold winters which affected the weight-gain of the animals, and what they believed to be inadequate labor and feed supplies.

The report evaluated each of these reasons and concluded that they were not serious deterrents to expansion. Weather conditions outside of winter were regarded as ideal for feeding cattle; the effects of winter winds could be reduced by using proper wind breaks, or by having as few heavy cattle as possible during January and February. Labor requirements could be reduced by using self-feeding high concentrate rations containing a minimum of roughage. In turn, roughage requirements could be reduced to less than 10 percent of the ration without adversely affecting the cattle. If necessary, family labor could be used to offset labor shortages. Consequently, feeder cattle and feed supplies were viewed as more than adequate to expand the State's cattle finishing industry.

Overcoming the obtacles to increased feeding would mean that eventually MLC would have access to 500 head of cattle per day for slaughter. The plant could also be expanded through adding processing facilities such as boning, hide fleshing, fabricating, etc. The report recommended delaying the decision to add equipment for processing (particularly for hamburger), until after the plant was operating. This would provide concrete information on the actual numbers of cows arriving at the plant, and would also allow an opportunity to even out the supply cycle. The latter would depend on the success in persuading producers to change their habit of marketing cull cows mainly in the spring and fall.

Economic Adjustment Study[5]

Other information on the marketing function came from an areawide feasibility study for the Great Falls Community performed by the Department of Defense when Mahlstrom Air Force Base closed in 1977. This study, *The Economic Adjustment Program,* estimated the impact several development projects, among them Montana Livestock Cooperative, would have on the growth of the Great Falls economy. The brief discussion of MLC critiqued some important aspects of its proposed operations. Like the Ullman study, this report flagged potential difficulties in establishing a meatpacking cooperative in Montana.

Industry trends summarized in the report suggested that MLC would need to reach out farther than the 200-mile radius assumed adequate to obtain a supply of slaughter animals. Pinpointing markets for its initial product, carcass beef, would likewise prove more difficult than originally thought since retailers are increasingly demanding boxed beef. Under these circumstances, savings in transportation costs would not be realized to the extent anticipated by the cooperative.

ILPA Feasibility Study[6]

The purpose of this study was to explain the need for more slaughter capacity in the Odgen area to replace that lost when the Wilson Plant closed in 1975. The firm withdrew as a result of declining sheep and lamb numbers, competition from other lamb plants, and a shift in company policy.

The study opened with a lengthly discussion of the historical trends in sheep and lamb slaughter, both nationally and in Utah. Methods of marketing slaughter sheep and lambs, seasonality of production, and price and consumption trends received detailed attention.

On a strictly physical basis, according to the report, the existing lamb and sheep slaughter capacity nationally was more than sufficient to kill available animals. In fact, not having enough animals for efficient operation had decreased new investment and profit margins within the industry. Firms

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[5]President's Economic Adjustment Committee, Office of Economic Adjustment, Office of the Assistant Secretary of Defense. *Economic Adjustment Program: Great Falls/Cascade County, Montana.* Washington, D.C.: The Pentagon, March 1980.

[6]Taylor, Morris H. "Facility Requirements for Sheep and Lamb Slaughter with Special Emphasis on Utah and the Western States." Logan, Utah: Utah State University Extension Services in cooperation with Adela Development Corporation. August 1976.

which had survived industry "shake-outs" had advantages in either sheep numbers, feed availability, or proximity to markets. Plants killing over 300,000 head in 1974, in other words, those with some or all of these advantages, were located in California, Colorado, Nebraska, South Dakota, and Texas. Most of the plants slaughtering at least 100,000 lambs in 1974 were in California, where many Utah lambs were shipped for feeding, and also Texas.

Dr. Taylor noted that producers, indeed the entire industry, were not moving to develop a local slaughter operation simply because they had adapted a "wait and see" attitude. This apathy could be countered by an educational effort to spur industry development.

While Ogden appeared to be suitable as a slaughter site, given the supply of stock sheep and potential for increased feeding, other locations were even more favorable. Scottsbluff, Nebr., and Denver-Greeley, Colo., contained a greater potential supply of lambs from nearby feedlots than did Ogden. Ogden also had less of an overall transportation advantage (considering both live and dressed lambs) than Denver. Three potential market locations were chosen to evaluate relative transportation costs: New York City, Philadelphia, and Boston.

Plant operation depended on the quality and amount of the available lamb supply. Management should base its operating levels on nearby sources, and avoid incurring substantial transportation costs to find sufficient lambs. This would also avoid having to reduce producer income by lowering the prices for lambs. Since some variation in lamb attributes is unavoidable, the firm needed to define at the onset the quality of lambs it preferred. According to Dr. Taylor, many sources of supply should be used—established order buyers, country dealers, producer groups, and organized markets. Broadening the supply network would strengthen the firm's ability to obtain the desired number and quality of animals.

Variation in monthly kill also affected the operating level of the proposed plant. Dr. Taylor found that plants in States killing a relatively small number of lambs were able to sustain the kill at an even level; plants which attempted to accommodate seasonal surges were subject to marked and inefficient changes in volume. During the 1970-74 period, peak slaughter months in Utah contained as much as two or three times the seasonal low. Moreover, seasonal trends from year to year were not consistent.

Dr. Taylor concluded that the bulk of lambs should be drawn from within a 400-mile radius of the plant. The area outside this boundary should be considered as "filler" and should not be undertaken unless it improved the

firm's net position by reducing unit costs and/or maintaining market access. The plant should slaughter at a level sustainable for 12 months of the year. Plant capacity, capital structure, and market strategy should be set on the basis of this level. The recommended base kill was 80 head/hour. With seasonal low production, supply lines must be extended to Arizona, California, and Oregon.

Increases in the amount of feeding done in the Ogden area could add as many as 75,000 to 100,000 lambs to the number of slaughterable animals. This would depend on the availability of feed, and the willingness of farmers, feedlot operators, etc., to assume the risks (price fluctuations) associated with feeding.

Potential market strategies mentioned by Dr. Taylor were innovations in the slaughter and fabrication of carcasses, especially those from old ewes.

The board of directors would establish corporate policy and operating guidelines for plant management. To fulfill this task, the board needed enthusiasm; the manager, knowledge of the meatpacking industry.

In conclusion, Ogden was recommended as a prime site for sheep and lamb slaughter for the following reasons:

1. The total numbers of animals available within a radius of 330 miles.

2. Present and potential levels of lamb feeding.

3. Seasonal market flow of slaughter lambs and sheep.

4. The competitive market situation for live and dressed product.

This report did not explicitly propose a cooperative meatpacking plant; however, Dr. Taylor is considered to be the originator of the idea.

Elements of a Complete Marketing Study

A comprehensive feasibility study is a tool to conclusively demonstrate if there is a need for a cooperative meatpacking plant. The studies reviewed in this section emphasized important issues such as quality and seasonality of supply, feedlot development, the need to educate producers about cooperatives, and the need to identify markets, particularly for carcass beef. While each report focused on some of these topics, the available information was not synthesized into a single study to systematically consider all important issues. Both MLC and ILPA concentrated on only one study

apiece to define their structure and operations. These favorable studies failed to convince producers of the need for a meatpacking cooperative either because few saw the studies, or because producers were skeptical of the analysis.

The feasibility study for a meatpacking cooperative can be more credible if it covers the following topics:

1. Feedlot and market development necessary to support the plant.

2. Past and future industry trends.

3. Obtaining feedback from producers and other community/farm groups.

In general, the feasibility study used for MLC or ILPA began with the assumption that a meatpacking cooperative was the only way to improve the situation. This assumption may be correct, but by limiting the number of alternatives considered, producers are left with only two choices: Construct a plant or do nothing.

In presentations made to farm leaders, Chalmers noted that an educational program lasting as long as 10 years might be necessary to develop producers' confidence in cooperatives. He anticipated few other organizational or financial road-blocks. This optimism may have raised the expectations of MLC's organizers, who, unlike producers, were already convinced of the merits of cooperatives. Thus, they didn't establish organizational deadlines or even acknowledge they might have to consider other methods for improving producers' welfare.

The Chalmers study did not provide a plan for an orderly transition from a cow-calf system of marketing to a fed cattle in-State slaughter system. It covered only one part of the marketing system extending from the producer to the consumer. To develop a successful meatpacking cooperative, each link in this system must be considered: Financing would be required for a slaughter plant, for cow-calf producers who want to feed out cattle for the plant, and for market development for the resulting carcass beef. This is a comprehensive or systems approach to improving the welfare of producers. This approach to livestock marketing can help identify the strategy necessary for producers to move from an out-of-State feeding system to an in-State slaughter situation. In considering how feeders' production practices needed to be changed to circumvent seasonality, the MLC Feasibility Study applied a systems approach.

Producers are cautious; they do not always believe in the cooperative concept.

Consequently, small scale projects offering fairly quick, visible results may be necessary initially to build trust among them. Producers need practice in joint activity.

Feedlot Development

One of the strengths of the MLC study included its attention to feedlot development to offset seasonality of supply. However, the report overlooked some consequences of expanding feeding operations.

To assure a cattle supply of 100,000 head yearly to MLC, producers were asked to change production and marketing practices in return for potential transportation savings of at least $20 per head. However, the savings in transportation cost represent a future benefit to producers, one that will be realized only after they have spent the money to raise an additional animal. Using those savings to sell the cooperative does not acknowledge the fact that a decision to raise more animals is a risk with an uncertain payoff. The animals may get sick, the market may decline unexpectedly, etc. The cooperative must also take into account the delays involved as animals are withheld from slaughter for breeding or as calves are raised to maturity.

The MLC Feasibility Study concluded that Montana feedlots were running far under capacity because of lack of slaughter capacity and feed, and adverse weather. The report ignored the fact that most Montana ranchers are cow-calf operators who depend on sales of their calf crop for cash income. To expand into feeding would delay this cash income and create the need for interim financing to carry the ranch operations through the feeding period. The rancher would have to change his whole way of operating.

The cattle price cycle will also affect cattle available to slaughter. Price declines will naturally result in some shakeout of Montana producers since the cooperative will probably always offer prices close to the market level. Participation in a cooperative meatpacking venture will give members the advantage of increased returns from slaughter operations at the same time as returns from production are declining. Nevertheless, the cooperative cannot count on retaining all members in production during prolonged low prices. To decide to rely on the open market for a substantial portion of the cooperative's kill means that the necessary market contacts will be in place so that the cooperative can depend on them. The cooperative must also decide what its policy will be when members want to sell it animals beyond their kill rights.

The problems associated with supply, such as a more intensive use of feedlots, need to be solved before the plant is built. An extra heifer can be sold with less disastrous consequences than an empty packing plant. Comments by both producers and management indicated that the cooperative would have received greater acceptance if livestock supplies had been perceived to be more adequate.

Market Development

While savings in freight are appropriately emphasized as one way of selling producers on the cooperative, not all producers thought these savings were an important benefit. Such producers saw themselves as part of a marketing chain ending with the retailer or consumer. This viewpoint led them to ask questions about the market destinations for the cooperatives' products and about the effect of competition from packers already entrenched in a desirable area. Answering such questions by re-emphasizing freight advantages (as was done during a promotional meeting of one of the cooperatives) does not convince the producer that all aspects of the proposed operations have been fully analyzed. A persistent focus on freight charges indicates that the directors have taken a rather narrow view of the cooperative's role and potential power within the livestock-meat marketing system.

By postponing the decision to add processing equipment until a later date, the consulting firm preparing the MLC feasibility study was advising the management to take a passive role in determining what type of final product the cooperative would ultimately produce. The management was not advised to go out and aggressively pursue the kind of animals which could be profitably marketed and ignore the rest. Instead, the management was to "wait and see" how many cull cows arrived at the plant over time. In effect, the decision to add processing equipment would be made by the individual production decisions of farmers, ranchers, and feeders. This situation implies that the cattle price cycle will have a considerable impact on the result since the number of cull cows will be greatest when cattle prices are declining.

Determination of the markets for carcass beef was another decision to be made after the MLC plant was in operation. This decision was to be based entirely on the freight rate from Great Falls to alternative destinations. And the only indication of markets seriously being considered was the presentation of rates from Montana to several potential market areas: Denver, Minneapolis, Chicago, Seattle, San Francisco, and Los Angeles. Cleveland, Philadelphia, Spokane, and New York were mentioned as other possibilities.

These possible markets ranged from Seattle to New York City—the scope of the entire country. The decision to base market selection on the freight rate implies that it will be based solely on the lowest freight rate. This will most likely be to a market in the Pacific Northwest, not New York City or Philadelphia.

But using the lowest freight charge as the basis for choosing markets does not take into account demand and competition from other packers. These factors affect the total revenue available to the cooperative from different markets. Freight charges are a component of total costs, not total revenue. In using them as the sole determinant to market choice, the cooperative attempts to minimize costs, not maximize revenue. However, the market where the cooperative will most profitably market its products is where total revenue most exceeds total costs.

One may argue that it is not necessary to determine markets before the cooperative actually goes into business. The market situation at the time the feasibility study is prepared will not necessarily be the same situation that will exist when the beef is hanging in the chiller. Also, for reasons of market strategy, the cooperative may wish to avoid publicizing its plans prior to operation.

The market situation confronting the cooperative will indeed fluctuate over time. However, singling out a specific target market prior to beginning operations gives the cooperative a better bargaining position with potential customers. The indecisiveness of waiting to see what producers decide to send to the cooperative can be replaced by an aggressive emphasis on the items chosen for production.

Moreover, market strategy encompasses more possibilities than the carcass fabrication mentioned in the ILPA study. It can include attempts to match the plant's prospective output with growth sectors in the economy, such as the hotel and restaurant trade, no frills markets, or cities in the Sunbelt. It can also include ways to attract customers of defunct local packing plants.

To establish appropriate policy for the plant's operation and marketing strategy, the board of directors must have more than the enthusiasm called for in the ILPA feasibility study. Like the plant manager, the board also must understand the meatpacking industry.

The feasibility studies were unable to firmly indicate the profitability of a producer-owned meatpacking plant because they did not contain a product policy. The components of a product policy which would have increased the effectiveness of the studies as an investment aid and a selling tool are:[7]

[7]Scheuing, Eberhard. *New Product Management.* Hinsdale, Ill.: Dryden Press. 1974, p. 170.

1. Determination of the target markets, including who, what, when, where, how, how much.

2. Product mix, including lines, qualities, and differentiation.

3. Make or buy.

The feasibility studies also paid little attention to a distribution policy, another determinant of profitability. Some of the overlooked components were:

1. Factors affecting the choice of wholesaler, retailer, or consumer.

2. Relative margins from each of these groups, including growth factors (such as no frills grocery stores and food service outlets).

In general, the meatpacking cooperatives were production-centered, not customer-centered. This orientation makes an organization think that profit resides solely in low-cost production. This is the primary reason output for the MLC plant was set at 400 head daily, although a smaller plant capacity would have reduced questions about the availability of supply to fill the plant. MLC's goal was to produce carcass beef efficiently. Yet carcass beef is becoming obsolete, and no refinement in production efficiency can compensate for the fact that it no longer meets the needs of many retailers.

New meatpacking cooperatives should take a customer centered viewpoint by defining themselves as part of the food industry, not as the slaughter and chill industry (a production-centered viewpoint). This change of perspective will make it easier to define what kinds of products meet the needs of retailers or other customers; the answer may dictate rapid acquisition of processing equipment.

Industry Trends

The marketing program was further weakened because the studies didn't anticipate industry trends. The studies could not forecast without first providing an overview of the industry. The ILPA feasibility study reviewed many important industry trends on a national and local level. Had such a summary been provided in the MLC study, the increasing demand among retailers for boxed beef might have been noted, and a different decision made about acquiring processing equipment. Recent public concern over diet and nutrition is another example of a factor which could affect the demand for the cooperative's products. If the feasibility study does not reflect industry trends, the cooperative may have problems adjusting when the trend becomes the norm.

The studies also should have presented realistic scenarios corresponding to industry fluctuations. These scenarios could point out the desirable course of action implied by different plant sizes, addition of more plants, changes in regional competition among packers, etc. This information could demonstrate to producers the cost of a "wait and see" attitude. The scenarios could also suggest the probability of occurrence for each of the scenarios to answer those producers who conclude that meatpacking is unprofitable under all circumstances.

By also including scenarios which might indicate especially low profits for the cooperative, the directors are forced to consider strategic responses to such developments. This can demonstrate to the agricultural and financial community that the cooperative is taking a cautious and reasoned approach to investment decisions.

Obtaining Feedback

If producer-members are to truly operate a meatpacking cooperative, they must have some voice in determining the proposed operations. The cooperative needs to be structured on a level that corresponds to the probable degree of producer support and this is one of the factors to be considered in the feasibility study. MLC first determined the size of its plant using efficiency as a criteria, then went to producers and attempted to obtain sufficient livestock commitments and equity to make the plant a reality. Producers hestiated to accept MLC because they felt the plant was too big, and they anticipated seasonal supply problems. They were not concerned about efficiency, possibly because they did not fully understand the scale of technology involved in meatpacking, and possibly because near each cooperative one or more fairly small scale meatpacking operations were thriving.

When plant size is established without consulting producers, no flexibility is built into the decision to accept or reject the plant. If an educational program has informed producers about the requirements for efficiency in meatpacking, they should be aware of the implications of a choice for one capacity over another. The feasibility of several plant sizes should be examined so that producers can see the consequences of choosing each one. (However, the MLC situation may also demonstrate that the size suitable to producers may be infeasible from an efficiency standpoint.)

One person who worked in economic development overseas noted that, "Feedback channels have probably been neglected more and are probably more critical than any other aspect of communication other than personal

contact. . . When the communication techniques of demonstration, personal contact, and feedback are utilized, an innovation is well on the way toward acceptance."[8] If the directors of the cooperative do not directly solicit producer comments, they will have to face them in a more indirect and serious manner through inadequate producer participation or adverse reactions by other farm organizations.

The directors of the cooperatives appeared reluctant to confront negative perceptions by others in the agricultural community. They seemed to ignore warnings that the procedure used to determine markets needed further work, that the plant size might be too big in relationship to available supply, that livestock commitments were unworkable. If the directors had been more flexible, and more willing to critique their procedure, the opposition itself might have been more open to supporting the cooperative.

The other agricultural groups might also have been more willing to support a meatpacking cooperative if several different organizations recommended the action. In other words, the ideal situation for MLC and ILPA would have been to have detailed feasibility studies from more than one source, each recommending a meatpacking cooperative. This would have given the directors ammunition against the complaint, "Why do we hear about the wisdom of establishing the plant from only one source?"

Obtaining two feasibility studies was recommended by some persons interviewed as "insurance" against the probability that building a meatpacking plant was unwise. It can be a reasonable form of insurance, given the high costs of a failed plant. Guidelines are supplied at the end of this publication to indicate the topics that need to be covered to make any study as thorough as possible.

The feasibility study itself is one of the primary ways the producer group will create a first and perhaps indelible impression on the agricultural and financial community. The potential expenditure of $3-$5 million for a packing plant alone suggests that producer groups should not economize on the time or money necessary to obtain a comprehensive feasibility study.

Information Provided by Established Cooperatives

One of the cooperatives involved in this case study approached an established cooperative about combining efforts in livestock and meat marketing. The new cooperative described several reasons for joint action, reasons which demonstrated its perception of the meat marketing system. The

[8]Niehoff, Arthur H., ed. *A Casebook of Social Change.* Aldine: Chicago, 1966, p. 18.

response of the established organization demonstrated that it had a very different perspective, one which precluded joint action until several conditions were met. This section illustrates the orientation of each of the parties involved so that future producer groups may have a frame of reference for proposing interaction with another cooperative.

The comments by the established cooperative need to be put into the context of the issues raised by the new organization. The latter began by describing the marketing situation in its area. More slaughter capacity was urgently needed. Private firms were unwilling to establish a slaughter plant since producers were willing to pay the transportation costs to move the animals out of state. This situation represented an opportunity for a cooperative enterprise to help producers gain market leverage.

According to the new cooperative, joint action could produce several tangible benefits. All meatpacking cooperatives could gain from a network of strategically placed plants, each performing a fragment of the slaughter and process operation. Potential economies were available from joint efforts in inventory analysis, product trading, and coordination of transportation to deliver products. Seasonality of supply in one area could be offset by the supply available in other areas. The new cooperative could market its product under the brand name of the established cooperative for an appropriate use fee. And, the more plants associated in a single organizational network, the more clout each would have in dealing with organized labor.

Other benefits were intangible and related to the image of cooperatives themselves. Private companies would continue to expand in red meats processing unless checked by cooperatives. The example of collaboration between new and established meatpacking cooperatives would encourage cooperatives in other commodity areas to diversify into red meats processing. Moreover, the existing cooperative should have a stake in expanding cooperative ventures outside its immediate membership area, thereby making it eager to develop innovative, inter-regional organizations.

On a more immediate basis, the new cooperative wanted to use the established cooperative to supply marketing and processing services to producers during the interim period before the new plant was built. This would imply moving livestock from the Mountain States to the Midwest for slaughter. Such movement had already occurred during favorable price periods.

The new cooperative then identified its assets: A plan for plant operation, a site, commitments of money and livestock from producers, and endorsements from influential farm and State government organizations.

In response, the established cooperative indicated that a producer group must clarify whether a new cooperative would be a net improvement in the livestock-meat marketing system. The following questions needed to be answered.

1. Is the producer's return maximized by feeding animals himself, or by selling animals to out-of-state feeders?

2. Is the optimal return to the livestock feeder obtained by selling locally or by shipping to packers in another area?

3. What impact will the competition of other packers have on alternative marketing options for producers?

If the answers indicated that producers' income would be maximized by establishing a meatpacking cooperative, the next issue was marketing the meat once it was slaughtered. The established cooperative suggested that the new organization consider the following points:

1. Maximum efficiency is not reached in a slaughter operation until over 1,100 head of cattle or 3,000 head of sheep are slaughtered per day.

2. Separate markets may be necessary for the plants' output, and the cooperative may not have sufficient volume for any one market to be more than a marginal supplier. A multi-species plant may have to allocate its marketing efforts among cattle and lambs; a beef slaughter operation may be divided into the cull cow (sausage or hamburger) trade and the fed cattle (table beef) trade. The cooperative may have to incorporate with another packer to get the necessary volume.

3. The cooperative needs to obtain animals of uniform quality so that its supply is not discounted because if fails to meet purchasers' conditions.

4. The cooperative must determine potential market locations, considering the competition and the demand for its products.

5. The cooperative needs to determine what processing equipment it needs to enter markets for cull cow meat. This involves determining the costs of acquiring equipment concurrent with plant startup, acquiring it later, or contracting for the services of a breaker, including necessary transportation fees.

6. The cooperative must specify what assistance it wants from the established cooperative, e.g., marketing assistance, monitoring of plant operations,

etc. The cooperative must realize that its markets will probably differ considerably from those of the established cooperative. The latter may not have market expertise in the particular product or region the new cooperative is considering. A brand name recognized in one part of the country and for one type of product may not have the same acceptance in another context or location.

7. The organizing cooperative needs to show the dollar-and-cents advantage of joint activity with the established cooperative. Appeals made on the basis of assisting fellow cooperatives will not be accepted by the members of the established cooperative.

The central issue in these comments by the established cooperative is that of the location and type of market for the products of the new organization. If the new cooperative answers this question by handing over the marketing responsibility to another organization, perhaps a food brokerage firm, it must select one familiar with the meatpacking industry. And the cooperative must develop a plan for dealing with contingencies, and for insuring that the firm is held accountable. The cooperative must consider what will happen if the brokerage firm goes out of business, if the firm is fraudulent, or if it moves the cooperative's products at too low prices. Monitoring should be done regularly and frequently, because the low profit margins characteristic of meatpacking do not allow room for repeated error. The monitoring function should not be performed by an agency who may at some time be competing with the cooperative in the marketplace. In other words, a conflict of interest may develop between the marketing needs of the cooperative and the broker's other accounts.

The belief that established cooperatives and farm organizations should support an emerging cooperative is not realistic. Established groups have their own clientele. No one farm organization can effectively serve the interests of all producers for very long, as the history of the Grange movement has demonstrated. Farm interests are frequently regional, corresponding to particular commodities which can be produced best only in certain sections of the country. Managers of cooperatives focused on a particular commodity may for that reason have difficulty persuading their members to consider adding meatpacking operations. Livestock producers themselves have demonstrated considerable reluctance to join meatpacking cooperatives. Furthermore, when the market is limited and the commodity is fungible, as is the case with carcass beef, the welfare of one group of producers can be reduced by competition from another group of producers with the same commodity for sale.

However, in many cases, joint action by producers brings economic benefits to all, particularly when it increases the volume available for sale in a mass market. Since the market demand for carcass and processed meats is frequently fragmented into the supermarket, institutional, Government, and custom trade, established operations may have to adjust significantly to work jointly with a new meatpacking cooperative. The economic benefits of making these adjustments needs to be made unequivocally clear. Because meatpacking is a risky business, established cooperatives may demand assurances of profit that a newly formed venture cannot give.

The benefits of associating with an organization carrying a well-established brand name must be compared with the loss in flexibility incurred by the new cooperative. Associating with an established cooperative may imply loss of control to local producers.

A new cooperative must also consider the logic behind its proposals for joint action with another organization. Reaction to excessive transportation costs was a major reason for forming a local meatpacking operation. Yet these same high costs may be incurred if a new cooperative ships its products away to another cooperative for further processing or marketing. Separating the meatpacking operation into different components performed at different locations may add to the total transportation bill much more than if the entire process was performed at one facility.

The established cooperative also noted that producers considering a meatpacking cooperative should seriously study why private industry has not built a plant in their area. If a new investment would mean acquiring expertise in handling a species that a firm has no prior experience with, then its refusal may indicate a valid opportunity for a new cooperative. On the other hand, the private firm may have had reservations about the availability of a year-round slaughter supply, market saturation, or the distance to market. These are reasons which should also make producers hesitate. Producers can decide to respond to supply problems by committing livestock to a cooperative, thus giving it somewhat more latitude than a noncooperative firm. This control may not extend to feeding animals because, as the established cooperative indicated, producers then think that the meatpacking cooperative is competing with them.

In the experience of the established cooperative, producers hesitated to lock themselves into a contractural arrangement when other options for marketing were available. Contracts were difficult to enforce. Members would refuse to deliver, leaving the cooperative two options: Do nothing or

fight a court battle. Or, members would claim the livestock on the farm belonged to their wives, and again, the cooperative had no effective means of challenging their actions.

The comments of the established cooperative underscore the need for the new meatpacking cooperative to take a systems or project by project approach to the welfare of its producer-members. Another requirement is member commitment which will be sustained through a trial period of potentially rocky times as the cooperative works out organizational and operational details. Finally, the new cooperative needs markets. No amount of dedication by members can compensate for a lack of marketing expertise or markets.

Attitudes of Producers Toward Cooperative Meatpacking

This case study revealed how producers felt about the proposed cooperatives. Often their comments demonstrated the inadequacy of the feasibility studies as educational tools. Producers questioned the need for the plant and the rationale for cooperative organization. The following sections describe their questions and the reaction by the directors of the cooperatives. The topics covered may help explain why producers were frequently described as having a "wait and see" attitude toward participation in the cooperatives.

Need for the Plant Among Producers

The directors of each cooperative knew that producers were taking a "wait and see" attitude. But they assumed that producer support would increase substantially once a packing plant was built and/or in operation. The plant became the symbol of the anticipated success of the cooperative venture.

However, the interviews for this study indicated that producers were not waiting for the plant to be built (although they wanted another livestock purchaser in the area). Instead, their primary concern was more direct, i.e., that the proposed plant capacity exceeded the number of animals available to supply it. In this context, a "wait and see" attitude arises from the risk and uncertainty associated with investment in the cooperative. This may have been intuitively understood by management, leading them to focus on the plant itself to provide tangible proof of the wisdom of investment. However, the scope for proof went beyond the physical plant, as demonstrated by the assurances demanded by producers.

For example, proof was demanded that the cooperative would be a success. Producers frequently asked, "How do we know it is going to work?", or "Why hasn't private industry done the job?" They noticed newspaper accounts of numerous packing plant closings, and were afraid a cooperative would suffer the same fate. Plants killing more efficiently than the proposed operations were shutting down. Yet, in both Montana and Utah, fairly small-scale packers were doing a thriving business near the proposed location of each cooperative. Either these plants were not used to refute the view that meatpacking was unprofitable or producers assumed that a meatpacking cooperative could not withstand the competition.

Similarly, the opinion was expressed during the interviews that the meatpacking plant established by the cooperative may be successful only under second generation ownership. This attitude reflects other statements that suggested that farmers and ranchers do not know what they are doing in getting involved in a meatpacking operation. The implication was that private industry will come in and straighten out the failures of the cooperative.

Both MLC and ILPA suffered from an image of trying to produce for uncertain or nonexistent markets. Producers noted that the proposed volume of the MLC plant was too large to limit it to in-state markets; consequently, the plant would need to move its products into areas aggressively serviced by other packers. Under those circumstances, the future of the MLC plant and the outcome of producer investment seemed especially uncertain. Producers reasoned that if plant capacity had been set at 200 head daily, or half the proposed capacity, supply for the plant was more likely to be available and local markets could more easily absorb the product. Moreover, a smaller plant would have required less total equity. Even producers who vigorously supported cooperative meatpacking voiced uncertainties about what appeared to be a too large plant and a too small market. The directors of each cooperative made no discernible attempt to canvass producers' opinions about the size of the plant. This apparently backfired when those same producers were asked to support what to them was an overly ambitious project.

If plant capacity were less, producers would not need to change their own operations, such as calving patterns, to accommodate the seasonal needs of the plant. Large volume producers or feeders, who particularly objected to parting with their money before the cooperative was a going concern, would probably need to make considerable adjustments in their operations if they were to support the cooperative in proportion to their feedlot volume. While this category of producers are traditionally regarded as speculators, apparently the risk presented by investment in the cooperative

is not the kind which is inherently attractive to them. Commitment to a cooperative forecloses the option of playing one buyer off against another. Moreover, both small and large producers would be subject to the uncertainties involved in any increase in production: animal disabilities, droughts, inadequate supplies of feed, etc.

Some producers felt that Montana was a poor location for a meatpacking plant. They believed that the plant should be located where it would be economic for the meatpacking industry, not where it benefited a relatively small number of producers.

Producers who had marketing alternatives in other States did not seem to think they needed the cooperative. To them, the advantages of having another marketing option were not worth the bother of livestock commitment. (They also might not want to risk upsetting their existing marketing arrangements to flirt with the cooperative.) The interviews for this study also indicated that when ranchers are prosperous, they have no incentive to change. Their short-range planning horizon is also reflected by their reluctance to forego a better current price from another packer for a patronage refund at a later date.

Reaction to Cooperative Organization of the Plants

The cooperative organization of ILPA and MLC appealed to many producers because they were impressed by the performance of CENEX, dairy and retail cooperatives, and GTA. The Farm Bureau strongly endorses cooperatives, further influencing producer opinion.

The directors of each cooperative and prominent members of the agricultural communities in Utah and Montana described some of the image problems each organization had simply because it was a cooperative. The purpose of this section is to help other producer groups anticipate reactions to a new meatpacking cooperative. The objections of producers in Montana and Utah to cooperatives generally arose from ideological objections and a perception that cooperatives are inefficient.

The belief that cooperatives do not represent free enterprise was mentioned by almost all persons interviewed as a primary reason why producers had not joined MLC or ILPA. This attitude seems to have an historical basis. Many Montana producers still remember private industry's campaign against cooperatives during the early part of this century. The Mormon culture in Utah, on the other hand, left no such legacy. In fact, Mormon pioneers early cooperated to build irrigation systems to combat the arid climate. However, in both States producers recalled the anti-communist

rhetoric of Senator Joseph McCarthy in the 1950's. Apparently, many producers had not learned to differentiate domestic farmer cooperatives from Soviet-style collectives.

Another ideological objection frequently raised was: "With a cooperative effort, individuality is lost." Livestock producers are proud of their independence. They have struggled to make a go of ranching without help from any organization (or even each other) so they see no need for any marketing assistance at the present time.

In Montana, livestock producers saw further proof of this philosophy in the Farmers' Union support of MLC. Livestock producers are conservative, and to some, previous alliances of the Farmers' Union with organized labor or environmentalists appeared very liberal. The producers associated the "liberalism" of the Farmers' Union with MLC. They also concluded that MLC would be owned and controlled by the Farmers' Union. Thus, prominent support of the new meatpacking cooperative by another farm organization can be a mixed blessing, because livestock producers may then react on a philosophical basis rather than see the cooperative as a means to improve their marketing situation.

The directors of the MLC were described as (and appeared to be) reluctant to confront this perception. They did not want to appear ungrateful to the Farmers' Union for its considerable support. However, this attitude implied that producers were right in concluding that influence amounts to control. The directors of a new cooperative may wish to consider whether a goal desired by both themselves and a supporting farm orgainzation may not be more effectively reached by actions which demonstrate the autonomy of each group.

In their efforts to combat anti-cooperative attitudes, the directors may have oversupported cooperative ideology to the neglect of including a dollars and cents approach. Producers wanted to see the cooperative as a business organization, not a philosophical vehicle. This approach is consistent with the individualism and economic position of many livestock producers today, yet, these cooperatives did not recognize it. Perhaps their perception was clouded by their enthusiasm for the cooperative concept itself.

Producers were all too aware of the cases where cooperatives were not as efficient as privately owned firms. They remembered that when many of the cooperatives associated with the Grange movement of the late 1800's failed; the farmer also lost his personal property. This may have made producers wary of organizations and causes which appear to be overstating their

potential economic advantages, as the Grange did, and as MLC and ILPA were accused of doing.[9]

Although producers pointed generally to cooperative failures, other complaints were more specific. Producers did not like the "one man, one vote" aspect of cooperatives, a concept which does not recognize differences in the size of producers' investments. Cooperatives also had an image of not paying their taxes like other businesses, and (as in the case of rural electrification cooperatives) of receiving substantial interest benefits not allowed to noncooperative firms. Patronage refunds could not always be cashed to defray a producer's taxes. Furthermore, some cooperatives have not revolved equity as promised, nor did they have competitive prices in goods such as farm supplies. In the case of a meatpacking cooperative, mandatory kill rights appeared to be a means of avoiding competitive pressure.

Supporters of the cooperatives recognized that ideological opposition to cooperatives would be extremely difficult to change, particularly as the producers holding such viewpoints were generally over 40 years old, with well-established beliefs that cooperatives are something other than private enterprise.

The directors also began to recognize that cooperative philosophy is best stressed only after the cooperative has become successful. This was the approach followed by Moroni Feed Company, the influential Utah turkey cooperative regarded as a successful model.

The objection that cooperatives have an uneven record of success has been countered by the comment, "There are no sure things. You want a packing house—so get your money in and we'll see if the idea works." Another approach is to say, "Of course some cooperatives have failed. They failed because people didn't know what they were doing. That is why we studied the problems of producers in this area before we decided to act."

Objections based on cooperatives' handling of patronage, equity redemption, or competitive prices were met by emphasizing the expected conduct of MLC or ILPA themselves. As one ILPA director stated, "The cooperative will have to compete in the market to obtain enough animals to slaughter to stay in business. Furthermore, patronage is an 'extra' the producer would not receive if he did business with a privately owned packer."

To meet the "one man, one vote" objection, MLC structured the board of directors to contain four feedlot operators, four producers, and one at-

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[9]Ziegler, Harmon. *Interest Groups in American Society*. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1964. Chapter 6.

large member. This gave feedlot operators a greater voice in the cooperative corresponding to their investment. A similar tactic was followed by ILPA.

A newly organized cooperative could not afford to revolve equity for at least 10 years. Objections of this nature, plus those focused on the special tax benefits of cooperatives, indicate that producers do not fully understand why cooperatives operate as they do. As one director said of MLC: "A major error was in assuming people knew more about cooperatives than they actually did."

One producer suggested that the term "cooperative" be dropped from the name of Montana Livestock Cooperative. This was expected to reduce the discomfort some producers felt about associating with a cooperative. However, although ILPA is not by name identifiable as a cooperative, it has encountered resistance solely because it is a cooperative. Probably the best response is to conclude, as did one director of MLC, that, "Cooperatives are a legitimate form of business. Persons who dislike the connotation of a cooperative don't belong in one." Downplaying the cooperative structure leads to the risk of losing the support of pro-cooperative persons, which was felt to be much more valuable than that of basically suspicious individuals.

Conducting an Educational and Promotional Effort

Part of the organizational problem is that producers do not think they are part of the livestock-meat marketing system. Many see no tie with other producers or feeders. These producers tend to expect more from the cooperative than it can normally deliver.

Some producers believed all members had to do was hand over their money to the cooperative. They did not see the cooperative as a joint venture started by producers. They did not understand that they had a voice in the operation of the cooperative thought the board of directors. Instead, the cooperatives were regarded as the pet idea of one individual (the promoter, most prominent director, or originator of the idea).

Generally, a few individuals form a new cooperative. Such persons are undoubtedly highly motivated by the cooperative ideal and by the merits of group action. While both MLC and ILPA had founders of this caliber, unfortunately, the physical isolation of ranching does not promote a similar enthusiasm among many producers. Several people observed that ranchers are not joiners of anything. MLC and ILPA were attempting to organize in an environment where producers did not fully understand cooperatives, nor trust group action. Thus, the organizers and the potential members were

thinking along very different lines. The diverse attempts to promote the cooperatives reflect these disparities.

The successes and the disappointments of the cooperatives' promotional and educational activities suggest an explicit agenda needs to be followed to successfully organize a producer group. Over time, both MLC and ILPA have come to recognize that organization involves setting priorities and deadlines, a much more complex task than implied in the original scenario of "Get a plan, get a plant, and get going!"

The previous sections have emphasized that feasibility studies must be used to firmly establish the need for a new meatpacking facility. Then the producer groups establishing the cooperative must develop a broad base of support in the agricultural community and involve other producers through an educational and/or promotional program. Research done on the spread of agricultural innovations (such as new seeds or fertilizers) from farmer to farmer offers some insight into how to approach producers. Other insights can be obtained from composing an informal profile of the area's livestock producers, i.e., their values, their financial resources, their habitual way of operating. The experiences of those interviewed for this study offer additional information.*

Educating Producers

One of the cooperatives' problems was that they tried to do too much. Unfortunately, they were apparently unaware of considerable opposition to the cooperative concept itself among producers.

The directors of MLC and ILPA did not conduct evaluations of producer characteristics (such as that given later in this section). If this had been done, they might have known from the start that the organizational process would not be easy. They might have been more willing to plan on taking remedial action to counter potential objections, such as loss of individual marketing control implied by membership in a cooperative. Consequently, both MLC and ILPA were forced to educate producers on both cooperative organization and their role in the meat marketing system, as well as demonstrate the need for a new meatpacking plant. The result was that the directors were spread too thin.

Moreover, the directors were far more committed to the idea of a cooperative for its own sake than were area livestock producers. Some producers

*The material contained in this section focuses on the overall approach to an educational/promotional program. Specific information on developing brochures, symposia, press releases, and radio spots is contained in appendix I, and is based on the techniques followed by MLC and ILPA.

felt threatened by the directors' heavily pro-cooperative bias. When producers react in this manner, they may "block out" the message that the area needs a new meatpacking facility simply because they have heard only that the new organization will be a cooperative—and the evidence suggests than many producers do not understand how cooperatives work.

Therefore, the organizational efforts of a new meatpacking cooperative should be preceeded by a significant period of education, perhaps as long as a year. This would allow the founders to become familiar with the objections to a cooperative structure so that the new organization could be structured to overcome potential resistance. The alternative is to make changes as the need becomes evident, an approach which may not allow the directors to get at the root of the problem without upsetting the entire structure.

This educational effort should familiarize producers with the components of the livestock-meat marketing system. It is also important to convice producers that they have a stake in the entire system, whether or not they participate in a cooperative. Education directed to developing support for a meatpacking cooperative should focus on the need for another packing operation within the State, and not on the need for another cooperative. Once producers recognize the need for a packing plant, the advantages and disadvantages of alternative organizational forms can be explored. The educational material should contrast the cooperative and corporate structures. This would help producers understand that a cooperative might help them.

Of course, any educational effort directed to producers cannot duplicate the experience of actual membership and participation in a cooperative. ILPA received considerable support from members of dairy cooperatives who did not need convincing about the advantages of membership. Perhaps an organizing meatpacking cooperative should concentrate most of its initial efforts on producers who are already familiar with cooperatives.

Characteristics of Producers

To understand livestock producers in the area, an informal profile should first be constructed. The following profile was suggested by persons interviewed. While the profile is not exact and scientific, it is the type of description that should be made before any promotion begins. Without a hard look at the persons who are potential members, it is easy to lose sight of their values and habits, thereby missing an opportunity to meet them on their own ground.

Livestock producers like to retain as much control as possible over their operations. Interference by others is not welcomed. One way in which producers attempt to maintain control is to bargain, whenever possible, over selling their animals. Another way of maintaining control is through a somewhat suspicious "show me" attitude. Producers must clearly see the value of a new technique or operation before they will risk adopting it. These characteristics contribute to a generally conservative approach to production and marketing decisions. Moreover, necessary expenditures for land and equipment do not leave much surplus cash to invest. However, not all livestock producers are this conservative, particularly large-scale cattle feeders, who frequently speculate on the price of cattle through their production decisions.

An informal profile such as this can point out potential weaknesses in the organizational plan of a new cooperative. This profile suggests that producers could be expected to resist relinquishing individual control over their animals to the group control of a cooperative. Producers would probably want to test the cooperative before they would fully accept it. Furthermore, accumulating the necessary amount of capital to build a meatpacking plant may be a very difficult task if producers have other demands on their money. Difficulties such as these can indicate that the cooperative must be uniquely or atypically structured to be attractive to producers.

Another issue is how producers feel about cooperatives. The attitudes of producers may vary widely across the country according to their familiarity with cooperatives. In general, however, livestock producers will not have had the same amount of experience with cooperatives as would be expected of dairy producers or fruit growers. "In 1975 all marketing and meatpacking cooperatives combined handled only 12 percent of all cattle and calves sold, 16 percent of hogs and pigs, and 15 percent of sheep and lambs."[10]

Meatpacking Cooperatives as Innovations

Promoting a meatpacking cooperative is an especially difficult task because cooperatives are associated primarily with commodities such as grain and dairy products, not carcass or processed meats. Cooperatives may be considered an innovative way of marketing slaughter livestock. Social scientists have studied the spread of innovations from one person to another so that

[10]Haas, John T., *et al. The Future Role of Cooperatives in the Red Meats Industry.* ESCS Marketing Research Report 1089. Washington, D.C.: U.S. Department of Agriculture, April 1978. p. vi.

something is known about the settings which encourage their use. This information can provide some insight into the difficulties met by MLC and ILPA.

Research on the spread of agricultural innovations such as weed sprays or hybrid corn have shown that personal explanations from a knowledgeable source, such as salespersons or extension agents, were necessary to induce farmers to try new techniques.[11] Then the farmers had to test the product themselves before they would fully accept it. Recommendations from friends or peers were no subsitute for this personal experimentation. A free trial generally speeded acceptance or continued use by decreasing barriers to personal testing as cost.

This suggests that agricultural innovations carry a performance risk. Such risks are reduced by information about how the product or technique is expected to perform. For a cooperative, performance information would emphasize prices, quality of service, and other advantages over competing marketing methods.

In the case of a meatpacking cooperative trying to organize, the farmer or rancher cannot try out the slaughter facilities. The consequences of using the cooperative are uncertain. And this uncertainty is compounded by the fact that most producers do not understand the meatpacking industry. When consequences are uncertain, the opinions of others become important in affecting the attitude toward using an innovation.[12]

The decision to accept the cooperative can become complicated when the producer involves other opinions in his evaluation. If farmers and ranchers feel they will gain financially by using the cooperative, they are less likely to be deterred by other opinions. However, if they seek the opinions of others because performance information was not made available, and these opinions do not support the cooperative, then they may become very reluctant to join even if performance information is provided at a later date. If a person accepts an innovation previously rejected by others, he can lose face or status with them. In other words, there may not be much room for correcting the impressions made by inadequate or inappropriate information about the cooperative. By stressing (or not stressing) the concrete advantages to membership, such as price and service, cooperative directors can influence the impact that others will have on the decision to join.

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[11]Rogers, Everett M. *Diffusion of Innovations,* 7th ed. New York: The Free Press. 1969.

[12]Robertson, Thomas S. *Consumer Behavior.* Glenview, Ill.: Scott, Foresman and Company. 1970. p. 88.

Other factors besides risk affect the acceptance of an innovation. [13]

1. The *superiority* of the innovation over competing techniques. What are the benefits from marketing to a meatpacking cooperative compared to privately-owned packers?

2. The *compatibility* of the innovation with the existing attitudes and behavior of users. The individualism of livestock producers and their past involvement with cooperatives are examples of factors affecting compatibility.

3. The *complexity* or difficulty of understanding how the innovation works. If producers do not understand how the meat industry or cooperatives function, they are not likely to support a meatpacking cooperative.

4. The *communicability* of the innovation. How easy is it to spread the word about a meatpacking cooperative? This includes factors such as the geographic isolation of producers or their responsiveness to special seminars on trends in livestock marketing.

5. The *divisibility* or scale of investment needed to personally test the innovation. What kind of commitment must producers make to join and participate in the cooperatives?

These five factors offer a framework for evaluating producer acceptance of the cooperatives.

Previous sections of this report have indicated how the feasibility studies did not completely establish the superiority of the proposed operations. Moreover, the meatpacking cooperatives were not very compatible with the marketing methods habitually used by Montana and Utah livestock producers. To adequately support MLC or ILPA, producers with cow-calf operations would have to expand their operations to include feeding. The pronounced individualism of producers presented further difficulties. Producers were also intimidated by the complexities and instability of the meat industry.

These factors all complicated producer acceptance of the meatpacking cooperatives. The following sections of this report will evaluate how information about the cooperatives was conveyed to producers, and how producers reacted to membership requirements. This analysis will cover the other factors affecting acceptance of an innovation, communicability and divisibility. As will be seen, these factors were managed on a trial-and-error basis with varying degrees of success.

[13] *Ibid.*, p. 134.

Personal Contact

The studies on the spread of agricultural innovations have shown that before a farmer will consider a new practice, he must have personal contact with a change agent such as a salesperson or extension agent. The meat-packing cooperatives are no exception. Repeatedly during the interviews the directors stressed that individual contact was needed to adequately promote the cooperatives.

The characteristics of the change agent are also important. Marketing studies have found that a sale is more likely when the salesperson and the customer are similar. Matching could occur in age, education, politics, religion, and appearance. The latter may be particularly important to farmers and ranchers, as demonstrated by MLC's experience with the sales staff of a brokerage house. The salespeople did not talk the language of farmers and ranchers. The producers needed to see someone they could respect, someone like themselves, wearing jeans and a cowboy hat. A sales presentation made by someone who came across as if he wore the proverbial pin striped suit would be automatically discounted by producers.

Furthermore, the brokerage house preferred to emphasize mass presentations. In the early stages of organization, attendance at these may be a good way of gauging producer interest. However, producers seem to be intimidated by the presence of their peers so that they do not ask necessary questions. Consequently, producers in both Montana and Utah seemed to think that the primary promoter was going to get a lifetime job as plant manager once each cooperative was formed. It would be easier for producers to ask the obvious question, "What's in it for you?" on a one-to-one basis.

Other misconceptions resulted from the lack of personal contact with the staff or directors of the cooperatives. Some producers thought cattle had to be sold before the producer was paid. Others were confused by the meaning of kill rights. They did not know if the fee was refundable after the animal was slain, or if cattle could be submitted to the plant in excess of the kill right. The changes made in the kill rights to encourage membership illustrate this need for clarification.

The need for individual contacts was recognized early by the directors of both cooperatives. It was not clear who should make such contact, however. The logical choice would be the directors themselves. Yet they had other demands on their time, such as running their own farms and ranches and participating in other farm organizations, often in a leadership

role. This meant that the directors lent prestige to the fledging cooperatives, thereby serving notice to the farm community that the cooperatives were to be taken seriously. On a day-to-day basis, however, the influence of the directors fell short of the efforts needed to draw new members.

This problem can not be solved simply by stressing that more effort by the directors would have increased acceptance of the cooperative. In some cases, the directors themselves shared the "wait and see" attitude attributed to those who were not yet members. These directors reasoned that once the cooperative was a going concern they would devote more effort to insuring its success. Yet, a cooperative offers no incentives to anyone but a hired promoter to devote substantial amounts of time to get the cooperative off the ground.

The directors serve as examples to the rest of the livestock community. If they show their commitment is lukewarm, then the livestock community cannot be faulted for doing the same thing. This problem of commitment could be partially solved by incorporating deadlines into the organizational process. If directors knew that an all-out effort to gain members was required for a relatively short period of time, for example, 1 or 2 years, then they might be more willing to spare time from other obligations to get the cooperative organized.

The cooperatives were criticized because they relied on specific individuals such as a director or hired promoter to expand membership. Using a professional sales staff, even one which spoke the language of producers and understood their concerns, would not necessarily be economic for the cooperatives. A salesperson could spend several hours trying to convice a farmer to put up a $100 fee for a share of common stock, and a $50 fee for the purchase of a single kill right. But the salesperson may be paid $50 per day, leaving a fairly small amount of gain for the cooperative. Using promoters in any form also subjected MLC and ILPA to the criticism that the individuals involved in the effort did not understand meatpacking. To avoid this objection, the promoters may need to spend some time becoming familiar with industry trends and requirements for efficient operation in meatpacking.

The underlying issue is the extent to which the farmer or rancher has confidence in the representatives of the cooperative with whom he has individual contact. Even if the cooperative hires promoters who are extremely familiar with meatpacking, ranchers may perceive them as "outsiders" and disregard them. Probably the most any cooperative can do is to obtain a detailed feasibility study, perhaps contract for the advisory services of an

existing meatpacking cooperative, and put someone on the board who knows the industry. Ultimately, the real effort of promoting the cooperative rests primarily on producers who have already accepted the idea. Producer-members should be encouraged to bring other producers into the cooperative—in short, practice a "buddy" system.

The structure of MLC's sales effort has been changed by Zack Stevens. Previously, salespeople were arbitrarily located across the State. Stevens zeroed in on five counties with particularly high concentrations of cattle. The importance of the sales effort to successful organization is now recognized and no longer overshadowed by an emphasis on obtaining grant money.

Both MLC and ILPA have settled on small meetings with six to seven producers as the best way to use limited sales assistance.

Obtaining Commitment to the Cooperative

The meatpacking cooperatives needed full participation of area producers to obtain sufficient capital to build a plant and sufficient livestock to slaughter. Producers, on the other hand, preferred to do the minimum necessary to help the cooperatives develop. This frequently meant purchasing a very small number of kill rights. Indeed, Montana Livestock Cooperative stressed in its brochure that an investment of only $600 could purchase 10 kill rights and one share of common (voting) stock. On this scale, the cooperative needs investment from over 8,000 producers to achieve operating capital of $5 million (assuming plant construction would be financed by debt capital). This hesitation by producers could almost be considered predictable, given their need to personally test other agricultural innovations on a small scale before fully accepting them.

The promoters of the cooperative were reluctant to apply any sort of pressure to gain members. They believed that it was better for the producer to decide to accept the cooperative on his own. This low-key approach recognizes that pressure applied to independently-minded persons is frequently counterproductive. Yet this very avoidance of pressure implied to some producers that the directors themselves lacked the courage of their convictions.

Sometimes, the lack of pressure was due to the type of sales staff used by the cooperative. MLC replaced the personnel of the brokerage house with retired ranchers. While producers could identify with them, the retirees did not need the money from commissions so they did not work very hard.

The directors sometimes lost sight of the organizational goals in making presentations. They did not follow through on the salespitch; producers were not asked to take out their checkbooks and make a commitment. The producers were allowed to go home and think things over. Thus, many never got around to making a decision, or needed to be re-sold all over again.

The reluctance to ask producers to make a commitment also increased the total time spent acquiring members. This delay conveyed a powerful message to producers. Any project with a great deal to recommend it would be expected to get off the gound fairly quickly. In the words of one Montana producer, "Ninety-five percent of the area's cattlemen are convinced the packing house is dead due to the time lag in organizational efforts." While this may be an overstatement, it was apparent from the interviews that the delay of several years in establishing either of the plants has adversely affected the cooperatives' image. Moreover, the delay gives opponents more time to have their say.

If producers were asked to make a small commitment during the presentations, such as a membership fee of $25, they would acquire a vested interest in the cooperative. Tying the membership decision to a cattle commitment may be an overwhelming decision for producers to make at one time. If the decision to support the cooperative was broken into small, manageable chunks, the producer would not have to juggle in his mind how he will change his breeding and marketing practices to meet his commitment, how much success the cooperative will actually have in finding markets, whether or not the prices offered by the cooperative will be competitive, etc.

For other innovative agricultural methods, acceptance did not occur until the farmer had an opportunity to personally evaluate the innovation on a limited, and therefore, relatively risk-free scale. The directors of MLC noted that the membership of cattle feeders increased substantially once the purchase of kill rights was separated from commitment of more than a token number of cattle. This flexibility in kill rights gave the feeder the option of a free trial.

MLC or ILPA cannot retain cooperative status unless more than 50 percent of the cattle marketed through them represent member business. This requirement may conflict with the producers' desire for a free trial. The directors of both MLC and ILPA observed that producers would scurry to join the cooperative as the number of marketing alternatives declined. Until that situation exists, a new meatpacking cooperative may be forced to lower membership requirements and hope that the slack will be taken up by the number of producers interested in joining.

Developing a Broad Base of Support

ILPA chose to solve the problem of one-to-one contacts by relying on sympathetic local farm organization officials or prominent livestock producers, three to five per community, to spread the word about the cooperative. In so doing, they helped maintain the economic health of their own communities, and they also contributed to a stronger future market for livestock. However, the letter campaign initiated through Cash Valley and Western General Dairies Assn., seemed to promise a substantial increase in membership by itself, so the community promotion efforts were allowed to falter. The Dairies urged producers to authorize a $50 deduction from their milk checks to cover membership fees in ILPA. To do this, producers had to write a letter authorizing deductions, a possibly irksome requirement which may have decreased the response.

While the results of the community system have not been conclusively demonstrated, this approach promises to develop a broad base of support for the cooperative. It demonstrates to producers that support for the cooperative goes beyond the persons whose idea it was, or beyond the organizations who funded the feasibility studies. ILPA's experience showed that it is necessary to have a back up system of support in case other methods for encouraging membership fail.

Concurrently with the educational effort, a unified coalition of farm organizations should be formed. In Montana and Oregon, coalitions have been fostered through weekly meetings exploring issues such as water rights they could mutually support in the State legislature.

The cooperative needs to work through opinion leaders who, by virtue of the policies they support, can act as a liaison between farm organizations. MLC did this most effectively through its new director, Zack Stevens, formerly with the Montana Farm Bureau, and Terry Murphy, president of Montana Farmers' Union. Their shared philosophies enabled them to establish a base through which farm organizations in the State could unite. This type of group action should take precedence over forming a cooperative because without wide support, the cooperative effort may be doomed. This forum for joint activity can provide an atmosphere for problem resolution, in itself a help to a newly organizing cooperative. A formalized procedure for discussing differences and suggesting alternatives would remove unnecessary pressure from the cooperative's organizing efforts. Without formal communication among farm groups, a new cooperative can become a convenient target for conflicting philosphies.

Those promoting the new cooperative must share the stage with other members of the farm community. Producers will realize they have a voice in the operation of the cooperative if they see various members representing different species or size of enterprise. ILPA used this strategy by including on their board members who produced dairy cattle, fed cattle, sheep, and hogs. These directors were also prominent members of different livestock or farm associations.

The interviews during this case study indicted that when only one person's name is associated with the cooperative, producers fail to see that it is indeed a joint effort. They ask, "Why do we only hear good things about the cooperative from this person and not others?" Some of the directors of each cooperative were uneasily aware of this problem and wanted to downplay it. The initiative must rest with the persons who are the initial force behind the new cooperative. If they avoid a "one-man" show, the cooperative may benefit more than if they continued to dominate the organizing efforts. However, their reputation also may carry much respect and influence, and thereby greatly benefit the new organization. This calls for a tradeoff corresponding to the type of producer whose membership is sought.

One way to identify whether one individual is dominating the organizational process is to observe the names listed in press releases, or to note how frequently the board of directors is subject to change.

Broadening of viewpoint is another strategy to attract members. If different parts of the State are represented in the selection of directors, the cooperative may have more confidence that it will be able to draw on the livestock supply of those areas. Increasing the number of opinions used in the formation process will mean that the cooperative has access to a larger range of ideas from which to draw innovative solutions to problems. MLC membership increased after it instituted more flexible kill rights. This change did not take place for several years, when it became evident that the cooperative had to make some changes or die. It is possible that more frequent turnover in the board of directors would have encouraged more rapid change.

Need for Deadlines

The cooperatives did not establish organizational deadlines. Consequently, the pressure was on the cooperatives to coax producers into joining, and not on the producer to sign up or risk losing a valuable marketing opportunity. Both MLC and ILPA periodically reassessed the costs of organizing, and always ended with the decision to persevere.

In part, the reluctance to establish or hold to deadlines may have resulted from the directors' commitment to the cooperative ideal. Their dedication attracted admiration in some circles; in others, amazement. It is a very difficult decision to abandon a project when success may be just within reach. However, producers do not know this. All they see is an organization which just keeps struggling. A firm cutoff deadline would blatantly involve all producers in the decision to continue.

If the cooperative effort is abandoned because the deadline is reached and, say, only 30 percent of the kill rights have been sold, the cooperative will have conveyed an image of being in control of its destiny by postponing future organizational activities. Time may do much of the necessary work without further effort from the cooperative's organizers. The marketing outlets for livestock may decline, sparking interest in an assured outlet for slaughter. Producers may have an opportunity to clarify misconceptions about cooperatives, particularly if an educational program has been instituted for that purpose.

Deadlines also prevent producers from luxuriating in a "wait and see" attitude. They are forced by time limits into taking a stand one way or the other.

Certainly the board should subject both itself and the promoter to mutually agreed-upon performance deadlines. To retain the services of a promoter known to be ineffective is to serve notice to producers that the cooperative is not efficient. This lackadaisical approach could carry over into the management of the meatpacking operation itself. Unless the directors of the cooperative have already developed habits of demanding accountability, several years could go by before inefficiencies in plant management are corrected. At that point, the cooperative meatpacking venture may have to be sold because it is unprofitable.

Both MLC and ILPA have become aware of the importance of deadlines, and each has instituted a cutoff date for organization.

Guidelines for Producer Groups Seeking to Improve Their Marketing Situation

I. Decide what type of action to pursue.

A. *Take a comprehensive viewpoint* looking at large and small projects which could assist producers; do not limit alternatives.

B. *Evaluate the area trends* in livestock marketing; producers may increasingly be feeding animals out of State. They may prefer this to investing in their own plant. Such a growing trend may be impossible to stop.

C. *Clarify the results of this discussion with other producer groups* whose support will be helpful; concentrate on opinion leaders.

D. *Devise a way to survey producers* who are not involved in organized groups, but whose support or problems may be relevant. This could be included in the feasibility study.

E. *Obtain funding from several sources* for one or more studies exploring the alternatives. *These studies should include:*

1. *An overview of the livestock-meat marketing industry,* describing the trends in the industry and local area and their implications for producers.

2. *Descriptions of the risks and uncertainties* for each project and appropriate strategies.

3. *Timing* of the livestock price cycle and its relationship to each project.

4. *Supplemental projects* to sustain producer interest in joint activity during periods of fluctuating income. When the cattle price cycle has cut into producers' returns, they may not have the resources to invest in a plant; when returns are up, they may not have a "felt need" for another slaughter plant.

5. The *incentives* necessary to make each project succeed.

II. Action necessary to form a meatpacking cooperative:

A. *Obtain funding* for one or more feasibility studies.

B. *Determine plant size, considering:*

1. *Current supply* available for slaughter.

2. *Plant and marketing efficiencies* and effectiveness.

3. Need for *processing facilities and equipment* given available supply and potential markets.

4. Current and future *markets* for the cooperative's products.

5. *Producer preferences* for plant capacity.

6. *Alternative scenarios* of profitable and unprofitable conditions in industry.

C. *Other factors* to be included in the study:

1. Availability of superior *plant management* and necessary remuneration.

2. *A system to monitor plant* and marketing operations.

3. Methods of *channeling feedback from producers* to management.

4. A structure of *incentives* to keep the entire structure working.

5. *Expansion possibilities* for the plant, given area and national trends in meatpacking.

6. Availability of *livestock. Don't expect full herd commitment* unless no other packers are competing in the area. What will be the implications of this constraint for the operations of the cooperative?

D. Begin *educational and promotional activity.*

1. Begin indepth education effort:

a. *Compose an informal profile of producers* so that the member relations program can respond to their values and habits.

b. *Demonstrate to producers that they are a part of a livestock-meat marketing system.* The educational program must first reinforce the perceived need for the plant, and only then convey information about the requirements for participation in the project.

c. *Educate producers about the specific benefits of membership in a cooperative.* Economic benefits should be stressed along with cooperative philosophy. Also, producers need to understand what a cooperative is before they can be expected to participate.

d. *Stress individual contact* over efforts to generate producer support through audiovisual aids.

2. Build a broad base of support:

a. *Involve other producer groups* in the developmental process so they do not feel threatened by the project's success.

b. *Build a forum for resolving producer and/or farm group issues* so that the cooperative does not become a casualty of conflicting philosophies.

c. *Do not stress one promotional program over another.* Keep all fronts moving because if one program doesn't produce the expected results, another might.

d. *Spread the publicity.* Let members or directors who have not been previously associated with cooperatives have the spotlight shine on them.

e. *Be flexible.* Listen to what the opposition is saying and try to respond to their points. If the cooperative cannot justify its proposed operations to reasonable critics, it will give the impression of being run by headstrong and emotional people.

f. *Monitor what the community is saying* about project participants. The reputation of the participants is the reputation of the cooperative.

g. *Institute procedures for feedback from producers* regarding how they want the project structrured. Let producers respond to a summarized version of the feasibility study.

III. *Set deadlines for Project,* for example:*

A. 6 to 12 months for producer education, and establishment of inter-agency rapport.

B. 6 to 12 months to obtain funding and feasibility studies.

C. 12 months to obtain producer support through equity contributions.

D. 6 to 12 months for market development (i.e., contact retailers, food service firms, etc.).

E. 6 to 12 months to construct plant.

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*Note: D and E can be accomplished simultaneously. Under this framework, a minimum time to establish a meatpacking cooperative could be 4 years.

Appendix I: Developing A Publicity Program

Both MLC and ILPA used several techniques to increase producer interest in their projects. These included brochures, symposia, radio spots, and press releases.

Brochures

The purpose of brochures should be to arouse interest in the project so that the reader wants more information. The interviews conducted for this case study suggested that presentations which emphasized economic advantages were better received than those which focused on group affiliation and unity.

For example, the brochure used by ILPA set the stage for the packing plant proposal by reviewing recent declines in competition and livestock production. This material is directly relevant to the producer; the implication is that if trends continued, the producer could also be out of business. The brochure focused on the specifics of plant operation such as anticipated costs, kill levels, and markets. Little attention was given to the cooperative orientation of the project or to livestock commitments. The diversity of interests represented in the project was apparent in the fact that producers were given four individuals as sources of further information, each representing a different livestock organization.

By defining industry conditions, the ILPA brochure also educated producers about the requirements for successful operations of a packing plant, such as access to supply. Unless producers understand the critical factors influencing the industry, a packing plant managed via a cooperative will not be economically successful.

The ILPA brochure described the difficulties currently confronting livestock producers: inflation, higher operating costs, fewer processing plants, and greater transportation distances. The advantages to establishing a producer-owned and operated meat packing and processing facility were described in the first paragraph of the text: Competitive and stable prices for producers, and increased control over a constantly changing market situation. The next paragraph elaborated on the price discrepancies confronting dairy, cattle, and sheep producers, resulting in a market with depressed prices, dwindling competition, and restricted growth. The sheep feeding industry in Idaho and Utah was described as a casualty of these market conditions.

The organization of the remainder of the brochure followed a question and answer format:

1. What is the Intermountain Livestock Packing Association?

2. Why build a new cooperative processing plant?

3. Where will the new plant be located?

4. How will the plant be operated?

5. What products will be sold, and to what markets?

6. What buying methods will be used?

7. What benefits will Association members derive from the plant?

8. How will the new plant be funded?

9. With other packing plants closing, why will the new producer-owned plant be successful?

10. Where do I get more information about the Intermountain Livestock Packing Association?

While all these questions were appropriate and necessary, some were especially important to educate producers about industry conditions and the outlook for a new processing plant. The opportunity for a new plant (question 2) was demonstrated by the reasons for recent plant shutdowns: Obsolete equipment and processes, regulatory restraints, and locations distant from the source of supply. Kill costs for lambs and cattle from this type of plant were compared to the kill costs for a new plant. Each of the cooperative's products was paired with several possible market outlets.

Benefits to membership (question 7) were clearly listed:

1. A continuing outlet for slaughter sheep, lambs, cows, and fed beef.

2. Live prices that remain competitive with other regions.

3. Reduced transportation costs.

4. Increased quality control from farm to consumer.

5. Direct participation in returns arising from the efficiency and effectiveness of the plant's operations.

6. Increased confidence among producers in the future of livestock production.

7. Greater producer control over marketing.

To obtain more information, the reader was directed to representatives of the Utah Wool Growers, Utah Cattlemen's Association, Utah Dairy Association, and Northern Utah Beef Feeders Association.

The brochure used by Montana Livestock Cooperative focused more on the cooperative orientation of the project.

The brochure was also more tersely worded in the opening sections, which briefly defined the following: Participants, objectives, project definition, size, cost, financing, share sales, marketing rights, minimum investment, payment schedule, expenses, project direction, envrionmental regulation, and risk factors.

The project was defined as construction of a beef slaughtering and processing facility in Great Falls. Project objectives were:

"1. To provide cattle slaughtering and marketing facilites for Montana cattle owners.

2. To effect savings in freight costs to cattle producers and feeders.

3. To effect savings through more exact timing of slaughter of fed cattle by reducing the number of days on feed.

4. To reflect certain 'middleman' profits in beef marketing and processing back to the cattle producers."

Most of the definitions given in the brochure correspond to information provided in other sections of this case study, and may be considered an outline of membership requirements.

The next section briefly answered the following questions:

1. What is a cooperative?

2. Why a cooperative structure chosen for this project?

3. Other than the fact it is a cooperative, owned by producers, how does this project differ from Montana's previous packing plants?

4. How can I save money marketing through MLC?

5. How will cattle prices be determined?

6. How will cattle be scheduled for slaughter?

7. Who will manage the plant?

8. How will the beef and byproducts be marketed?

9. Why was Great Falls chosen as the location for this plant?

10. Will other plants be built if this one is successful?

"Cooperative" was defined as:

"A corporation in which the stockholders are its patrons, organized under the enabling legislation of the particular State in which it is incorporated. Montana Livestock Cooperative was organized under Montana law (Revised Montana Code, Title 14, Chapter 4). The goals of MLC are the same as those of all other marketing cooperatives, to improve the income of the patron members, in this case, Montana cattlemen, by stabilizing their industry through orderly marketing and distribution of their products."

A cooperative structure facilitated democratic management and control of the business by the producers themselves. Moreover, "Cooperatives have been successful by developing and maintaining superior management and by having a strong commitment from producer-patrons of both equity financing and contracted supplies of product to process and market." Paraphrasing the brochure, using the cooperative, producers would save money through:

1. Reduced transportation costs resulting from use of an in-state slaughter site.

2. Reduced shrinkage for the same reason.

3. No sales commissions.

4. Reduced time on feed, since the plant could pass on to feeder-members information on the performance of their cattle.

5. Shared profits from processing, distribution, and marketing of carcasses and byproducts.

Marketing would be performed by a well-qualified beef processing management consulting firm.

An earlier version of this brochure also included a question on the relationship between MLC and the Montana Farmers' Union. This question was later dropped because it only served to unnecessarily highlight the connection between the two organizations.

The reader was directed to the Office of Montana Livestock Cooperative for further information.

Critique of the Brochures. The ILPA brochure opened by describing industry trends that producers could identify with, and which, if unchecked, were liable to become a personal threat. This is a strong reason for a producer to continue reading the brochure to find out more about the project. In contrast, the reasons for establishing MLC were not elaborated on until a later section answered the question, "How can I save money marketing through MLC?"

The MLC brochure did not state the benefits in establishing a meatpacking plant as clearly as did ILPA. Contrast the MLC statement on one advantage, "To reflect certain 'middleman' profits . . . back to the producer," with the ILPA wording of the same advantage, "direct participation in returns arising from the efficiency and effectiveness of the plant's operations." The MLC definition of cooperative was overly technical when compared to the wording used by ILPA: "The Intermountain Livestock Packing Association is a producer-owned and controlled cooperative corporation that operates on a cost-of-service basis, and returns savings to member producers."

Cattle commitments were presented as one reason for locating a slaughter plant in Montana: "MLC will have reasonable assurance of operating its plant at full capacity because of . . . the marketing contracts for cattle between the plant and the cattlemen who are member-patrons. These contracts can reduce the costs of acquiring the necessary cattle supply." Procurement for ILPA would take the form of buying "from members and non-members on a consignment and/or cash basis. The Association will place emphasis on the use of membership agreements and . . . will also compete on the open market." ILPA's wording does not stress livestock commitment, a factor this case study has shown to be a psychological

minus. Producers must understand the need for a new meatpacking facility before they are confronted with the requirements for participation. An introductory brochure must stress this need, not go into details.

This case study indicated that producers did not understand the meatpacking industry and cooperative structure. Yet the fact that MLC and ILPA were cooperatively organized appears to have been a less important selling point than the need for Montana and Utah producers for more market access. Similarly, livestock commitments were an obstacle to participation and needed to be downplayed until the producers were convinced of the need for more in-state meatpacking facilities.

This study also revealed that not all producers believed cooperatives to be efficient. The wording in the MLC brochure that cooperatives maintain "superior management," is therefore debatable. Their specific benefits to a particular project are more salable than the records of cooperatives per se.

Symposia

Both MLC and ILPA held symposia featuring presentations by leaders in the cooperative and agricultural community, as well as State and local government officials. Their purpose was to educate producers about the livestock-meat marketing system, and to convice them of the need for involvement in cooperative meatpacking. The agenda for the MLC symposium, as described in a press release, is very similar to the topics covered in the ILPA meeting: Monitoring supplies and prices, beef and byproduct price reporting systems, prospects for beef exports, hedging strategies for ranchers and feeders, innovations in live marketing, trends and opportunities for producers in processing, what has been done by producers, and new ventures underway.

But neither symposium produced the desired increases in membership. The MLC program drew only 70 participants whereas 150 were expected. This cannot be blamed on poor timing since the MLC symposium was held in April and the ILPA symposium in August, and both had poor attendance and gained few new members. Other presentations were also poorly attended. Producer apathy appears to be the cause because these presentations seem to have been well advertised, with both radio and newsletter notices.

Radio Spots

Radio is supposed to be one of the best tools for conveying information to producers because houses, barns, and tractors all have them. Yet radio

spots were not very effective in promoting the cooperatives, although they did reinforce the times and locations of special meetings. One-to-one meetings with producers seem to be the best way to present the detailed information that is necessary to build memberships.

Press Releases

The press releases issued by Montana Livestock Cooperative were used to keep producers posted on the progress of the cooperative rather than enlist them as new members. Again, the information needed by prospective members was more specific than a short newspaper article could contain. Both MLC and ILPA received mostly favorable press from local newspapers. However, sometimes the MLC press releases overstated the number of kill rights which had been sold to date, and this was noted and corrected by editors or sources who wanted the cooperative to remain objective. Overenthusiastic efforts to give the impression of an ongoing and successful venture tend to give an organization an image of not being realistic.

Appendix II: Sources of Funding for New Meatpacking Cooperatives

Two potential sources of debt financing for a new meatpacking cooperative are: the Banks for Cooperatives and Industrial Development Revenue Bonds.

Loans from a Bank for Cooperatives

Interviews with two of the regional Banks for Cooperatives indicated that the loan officers want to be consulted early in the organizational process so they can assist the cooperative with its financial planning. The Banks are anxious to see cooperative meatpacking facilities develop to replace the slaughter capacity lost through industry turnover (if the plans show that the cooperatives are financially sound). The Banks offered several guidelines for new meatpacking cooperatives:

Determine Need The producer groups wanting to form a new cooperative should be able to demonstrate an economic need for the service. The projected kill costs for the cooperative must be compared to the costs of the competition.

The Bank would like to see projections and market possibilities analyzed early in the organizational process. This should include a marketing program and analysis of profitability and competitive situation. The analysis should be put on a cost per unit basis.

Obtain Producer Support The proposed cooperative must have the support of producers as demonstrated by equity capital investments and livestock commitments. Otherwise, the Bank will not have a sufficient basis to invest its capital in the cooperative. The Banks suggest that the cooperative obtain equity capital prior to determining markets. However, knowledge of how the cooperative intends to market will probably bolster support among producers. The Banks do not want to do the organizing for a cooperative; they prefer to let the cooperative develop its own package.

Producer support through the sale of kill rights is essential to make the cooperative workable. If the kill rights are sold to the community as a speculative venture to obtain equity from nonproducers, the issue of how the cooperative will obtain sufficient livestock to slaughter is not resolved. The Banks suggest that if farmers and ranchers are reluctant to support the cooperative in the organizing stages they may not support it even when the plant is built. If cattle commitment is initially foregone to stimulate interest in the cooperative, it will probably need to be forced later. Furthermore, a reduced kill right commitment by the producer will have to be offset somewhere else in the cooperative's operation.

The Banks look very closely at the types of commitments made by producers because they are aware that producers may fulfill their obligations by bringing poor quality animals to the cooperative. The Banks also would like to see how the cooperative will confront potential seasonal fluctuations in supply. These are factors which make good plant management essential to success.

The Banks recognize that many livestock producers are reluctant to tie themselves to one marketing outlet. This means that the cooperative has to do additional analysis to demonstrate that a meatpacking operation started with producer support will continue to work over time. As one person interviewed stated, "Ranchers tend to say one thing and do another." The Banks also recognize that a continued shakeout of packers may be necessary before producers will abandon their independence.

Consequently, the Banks would like to see affiliation with an established meatpacking cooperative. This could offset lukewarm member support of the new organization. The established cooperatives may have divisions other than meatpacking to absorb the impact of unprofitable periods.

Analyze Markets. The Banks want to see a complete evaluation of the markets for the cooperative's products: where they are, what kind of products they want, what prices they will pay, etc. The cooperative must show that it has considered various marketing outlets such as hotel, restaurant,

and institutional trade, the hamburger trade, the prime cuts market, and breaker operations, including transportation. This anlysis will strengthen the cooperative's marketing program and encourage the Bank's willingness to extend financing.

The Banks would like to see an existing cooperative assist the new organization through sharing marketing channels, transhipments, etc., because this increases market access for both organizations. But affiliation with established cooperatives will not determine markets for the new cooperative. This is something the new cooperative has to do on its own.

Obtain Feasibility Studies. The cooperative should obtain more than one feasibility study to prove to the Banks that additional slaughter capacity is necessary, and is not based on overenthusiasm to establish another cooperative. The feasibility study should consider the possible liability to increasing meatpacking capacity in the area and also strategies the cooperative will follow under adverse circumstances. If the cooperative projects a highly optimistic outlook, the Bank will be forced to question the analysis on which such a conclusion is based. The instability and competitive situation within the meatpacking industry today means that the cooperative must allow for contingencies. Similarly, the cooperative must include escalators for inflation in its financial planning so that the plans made a year or two ago will remain valid. One feasibility study should ideally be done by someone within the meatpacking industry.

If these requirements are met, the Banks can probably finance most of the debt capital requirements of the new cooperative.

Industrial Development Revenue Bonds

Industrial Development Revenue bonds are used to finance the purchase, construction, or expansion of property, plant, or equipment to be leased or sold to private enterprise. They cannot be used to finance working capital or such current asset items as the purchase of inventories or the incurring of receivables. ID bonds generally have a lower interest cost relative to other sources of financing, including the Banks for Cooperatives. They also can carry a longer repayment period, possibly beyond 10 years.

The bonds are issued by a municipality. Generally a financial report or justification statement is required as part of the procedure to obtain the bond. Both MLC and ILPA hope to qualify for a bond through their respective county governments. MLC will use the Interregional Service Corporation in Minneapolis to assist in arranging the financing. This organiza-

tion is a leasing company owned by a group of regional cooperatives. Another source of ID bond financing could be an economic or industrial development authority in the county where the cooperative is located.

The potential disadvantages of ID bonds are the time and red tape required for approval, the financing costs, and restrictions on the size of issue. The latter probably will not apply to some meatpacking cooperatives. Plant costs for both MLC and ILPA were expected to be approximately $5 million, or half the usual limitation for bond size.

Further information on this source of funding is contained in: *Industrial Development Bond Financing for Farmer Cooperatives,* Donald R. Davidson, Cooperative Management Division, Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture. Farmer Cooperative Research Report No. 18, Washington, D.C., August 1980.

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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 obtain supplies and services at lower costs 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*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.