



EMPTY LOT: Many people realized something was amiss when Meadowbrook Farms' packing plant was devoid of workers' cars. The plant officially closed Jan. 29.

Co-op a 'valiant effort'

By JOSH FLINT

EVEN though Meadowbrook Farms appears to be down for the count, Peter Goldsmith believes the farmer-investors made a valiant effort to retain more control over their product. He says Meadowbrook owners only wanted to stay ahead of vertical integration, which began approximately 50 years ago in the livestock industry.

Goldsmith is an associate professor with the University of Illinois. His research deals with the structural change in global agro-industrial markets and its effect on farmers.

"Over the years, the packing industry has become more coordinated and concentrated as a result of the need to more effectively service the increasingly large and more specialized demands of entire chains of stores," Goldsmith explains.

To ensure a steady and uniform supply of livestock, many packers now prefer to contract production. This allows stores such as Wal-Mart to have a steady, safe supply of meat, but many farmers have lost their independence in the process.

According to Goldsmith, this wave of consolidation started in the poultry industry. The poultry industry is almost completely vertically integrated, i.e. one company supplies the feed, genetics, transportation and slaughter. The hog industry is rapidly following suit. In this respect, a pork co-op to preserve farmer control over production and marketing, such as Meadowbrook, made sense.

Key Points

- Pork co-op attempted to stop livestock consolidation.
- Traditionally, co-ops have a tough time accessing capital.
- Most of meat's value is added downstream.

"With Meadowbrook, producers said, 'We have the hogs; let's pool our capital and capture wholesale pork profits by cutting out the middleman,'" Goldsmith says. "Plus, it would create a steady market for their hogs."

Finding capital

In the end, access to capital tends to be the co-op model's Achilles' heel. According to

Goldsmith, capital always seems short whether trying to finance brand development, enter new markets, achieve economies of scale or weather business downturns. Publicly traded companies and larger firms have access to greater resources and a variety of capital sources to raise money.

"For example, selling stock raises capital and brings in new equity holders," Goldsmith explains. "However, selling a portion of a cooperative nullifies the producer-owned mentality."

Many co-ops have built successful food brands and moved beyond the commodity marketing business, such as Sunkist, Prairie Farms, Land O' Lakes and Welch's, Goldsmith points out. "While Meadowbrook had

a small brand, it was insufficient to assure it a place in the marketplace," he notes. "So, the company had to compete head-to-head with much larger



firms in markets where product differentiation is not great, margins are thin and supplier loyalty is weak."

Value added

Goldsmith believes many farmers do not realize the bulk of meat's value is not added

at the farm. Instead, it's added downstream, aka near the retail end. Over the past 20 years, he has seen an expansion of retail marketing margins.

"When you sit down at Applebee's, the advertising, signature chef dish, special price points, extra sauces and drink specials are all part of the eating experience," he explains. "All of that 'experience' persuades the consumer to order the 8-ounce sirloin special."

While farmers produce 100% of the animal, Goldsmith estimates they receive less than 20% of the consumer's dollar.

Regardless of why Meadowbrook failed to succeed, Goldsmith says the pork co-op concept was a courageous move.

Lack of communication creates grief

WHEN they stopped getting paid for their hogs, nobody had to tell Meadowbrook's farmer-owners that things weren't going according to plan.

However, several producers noted a severe lack of communication between the co-op's management and the members. In fact, many weren't notified of the Rantoul facility's closing. "We didn't know they were closing the doors until we saw it on the news," says Jane Coulter, Meadowbrook part owner.

Jane's father-in-law, Melvin Coulter, a Meadowbrook charter member from Paxton, says the co-op originally com-

municated with the farmers through a newsletter. However, that stopped after a few months. Melvin says members still aren't sure why the plant closed.

"It appears that management felt a lot of the plant problems were caused by members not fulfilling their unified marketing agreement," he explains.

Melvin raises hogs with his two sons, Dave and Dan; his son-in-law, Larry Sexton; and grandson, Ben Coulter. The Coulter family's marketing agreement specified delivery of 85% of their production. Despite taking a \$20-per-head loss, the family delivered until the plant was idled.

Once the plant was closed,

Meadowbrook still owed approximately \$5.5 million in producer claims. Meadowbrook's bond coverage is \$740,000.

"I'm sure we won't get much of the money back that we sold in hogs," Melvin adds. He's also written the \$342,000 stock purchase off as a loss. To add insult to injury, the last payment on the stock is due this year.

"There are some people who've had to quit hogs as a result of this," he notes.

Quick trip

From the beginning, the Coulter family liked the idea of a producer-owned pork co-op. However, Melvin really warmed to the idea when he learned

the packing plant would be located in Rantoul, about 15 miles from his farm.

The Coulters now deliver to Tyson in Logansport, Ind., and Cargill in Beardstown. Logansport is a little less than 100 miles one way. Beardstown is 165 miles one way. With Meadowbrook, the Coulters were able to deliver three semi loads per day. Now, a load typically takes seven to nine hours.

Despite the proximity, Melvin says it takes a lot to make up a \$20-per-head loss. "As long as hog prices are high, I don't care how high grain and fuel prices are," he concludes.