

THE IOWA TURKEY COOPERATIVE EXPERIENCE
“WEST LIBERTY FOODS”

K.D. Rutledge
President/CEO West Liberty Foods

My name is Ken Rutledge, I have been in the poultry business for some 28 years.

I spent 12 years with Swift and Company in their Butterball turkey division. Swift was one of the largest corporate entities in the U.S. when I started with them.

I was employed for over 5 years at Norbest in Salt lake City, Utah. Norbest is the largest turkey marketing cooperative in the world.

I worked for over 6 years with Zacky Farms in California, a privately held fully integrated chicken and turkey business.

The last 4 plus years I have served as President and CEO of the Iowa Turkey Growers Cooperative DBA/West Liberty Foods.

I believe my diverse business background gives me a unique perspective to comment on Value Added Cooperatives, and the food business in general.

Let's begin by reviewing the short history of the Iowa Turkey Growers Cooperative.

In 1943 Louis Rich purchased the West Liberty Iowa Tomato Canning Plant. At that time he was operating a small plant in the Quad Cities, which he had started in 1930

In 1946 the plant was converted into a chicken processing facility.

In 1948 the sons of Louis Rich, Martin and Norman, focus the company on production of turkey products. This focus is on fully cooked further processed products. Over the next several years the company introduces many new turkey products. The company becomes known as a turkey product innovator, introducing a full line of fully cooked turkey products.

In 1979 Oscar Mayer purchased the “Louis Rich” company. The purchase included plants in West Liberty, IA. Modesto, CA., and Newberry, SC.

In April of 1996, Oscar Mayer, a division of Kraft Foods, a division of General Foods, a division of Phillip Morris, announced that they were closing the West Liberty plant effective on December 31, 1996.

In May 1996, 47 Iowa turkey growers banded together to try to find a way to continue production of turkeys. Their motto became "Strive to Survive". Their task was a daunting one. They would either find a way to continue to produce turkeys or convert their buildings to boat storage. Boat storage in Iowa was not an attractive alternative.

The Growers found they would need to:

1. Mortgage everything they owned in order to be able to continue to produce turkeys.
2. Take a risk few individuals would be willing to take.
3. Put together a program of financing with the US Department of Agriculture – Rural Development Agency, the State of Iowa – Department of Economic Development, Muscatine County, Muscatine Development Corporation, the City of West Liberty, Norwest Bank and Kraft Foods, and do this in a six-month period of time.

With the help of many, many individuals and organizations they were able to pull all the parties together and a program was launched.

On December 27, 1999 the facilities of Kraft Foods in Iowa were transferred to the Iowa Turkey Growers Cooperative.

Now the real fun began.

The growers discovered that there was nothing easy about being in the processing and marketing side of the turkey business.

The first turkeys were processed by the Cooperative in January 1997. A management team had been formed in November of 1996. A sales program was nonexistent. The only program in place was a commitment on Kraft's part to take a certain portion of the product from the plant.

Unfortunately the Coop started processing product during a time of record production and the lowest price in the history of the modern turkey business. This low market condition continued through June of 1998. To give you an idea of how serious this situation was, the normal break-even level for turkey meat is in the \$1.60 range. The market reached a low of \$1.07 during the first year and a half of the Coop's existence.

During that first year and a half; however, many significant events unfolded:

1. Two companies closed sizable turkey plants and idled or converted them to chicken.
2. The industry began to exercise serious production restraint.
3. Supply and demand came into balance. (As an old friend used to say), "The law of supply and demand will never be repealed."
4. A major player in the business decided to discontinue slaughter operations.
5. The sales and marketing programs the West Liberty Foods staff had been pursuing began to bear fruit.
6. Strategic alliances began to be put into place.
 - ❖ A Private Label line of high end deli products for the largest retailer in the country and for another midsize retailer was developed and began to be distributed.
 - ❖ A Co-Manufacturing agreement of major volume levels was concluded with one of the largest food companies in the world.

- ❖ The program with Oscar Mayer was continued and strengthened beyond the initial 2-year period.
- ❖ The plant began production of beef, pork, and chicken products in addition to turkey.
- ❖ The plant became the major producer of deli items for two of the largest sandwich shops in the U.S.
- ❖ The company began to receive recognition as a preferred production unit receiving such awards as:

1. The Hormel “Spirit of Excellence” award for both 1999 and 2000. Recognizing the company as Hormel’s supplier of the year.
2. The Iowa Governors Award of Excellence for 2000 as an innovative producer of food products.

(And)

3. The Value Added Agriculture Award for 2000 presented by the Iowa Area Development Group and the Iowa Rural Electric Coop’s to the company which demonstrates how farmers can improve their positions via value added production.

In January 1999, a very viable Cooperative emerges from the trying 1997 and 1998 experiences. The Coop continues to seek out business opportunities to insulate the Coop from the vagaries of the commodity turkey market, even setting plans for a natural turkey product line.

In 1997 the Coop processed 2.9 million head of turkeys from our members. In 1999 we completed the year with over 4.5 million head of turkeys processed. During the 2000 calendar year we not only processed 4.5 million head but also purchased the equivalent of over 1.0 million additional head in the form of deboned meat from other companies.

The coop started with 425 employees and today has over 1225 employees.

The coop has just concluded the purchase of another 50,000 square foot processing facility in Sigourney, Iowa.

The future opportunity for West Liberty Foods lies in selecting the appropriate partners from a co-manufacturing and private label standpoint, negotiating long term financially favorable agreements which will continue to insulate us from severe market swings, continue to seek out higher margin niche markets to blend in with the co-manufacturing/private label product and continue to improve to the most efficient production level at the plant.

If we are able to accomplish these tasks, we will provide to our grower/owners a profitable, sustainable business which can be passed down to the next generation as a financial investment worthy of their time and money. This is the key to a cooperative’s long term viability and survivability.

In a recent article from a trade publication ranking the top 200 meat and poultry processors based on sales revenue, West Liberty Foods ranked #157 in 1998, #90 in 1999 and #75 in 2000. We ended F/Y 2000 at over \$135 million in revenue. We have arrived and we intend to stay a viable food production entity for the long term.

We are concentrating on three (3) major trends which we believe will drive our business for the future and will also be applicable to any other cooperative food venture.

1ST TREND

Brand Marketing

Brand marketing in the future will focus corporate shareholder attention to marketing of the end product and cause major food companies to look for strategic alliance partners to grow, slaughter and process product. This is already happening at West Liberty Foods. This trend has resulted in four separate co-manufacturing agreements at West

Liberty Foods with four of the largest food companies in the country. The example used as the ultimate brand-marketing program is Nike. Nike owns no production facilities. All of their product is co-manufactured. This trend bodes very well for the future of West Liberty Foods.

2nd TREND

Private Label

Private label food production is very different today from the old generic labeled product you used to see in the grocery store. Major retailers today want to place their Store's name on upper end, high quality products. The private label business in 2000 grew at an +9% level. Branded product had a flat growth year. Most branded producers do not want to produce private label products, thus a continuing avenue of opportunity exists for West Liberty Foods.

3rd TREND

Food safety

Food safety is the issue of the new millennium. If you are planning to build a food production facility, you have a golden opportunity to build a state of the art facility with food safety as the integral part. At West Liberty Foods we inherited an existing facility. We continue to remodel our facility to provide the safest environment for food production. An example of this is our newly completed segregated facilities for our cook side employees. This means no daily contact between raw side and cook side employees. If you expect to be chosen by major food companies and by retailers as the production facility of choice, you had better provide a reason for them to select your company.

In addition we must plan to market our products to the next buying generation, this in itself is a challenge.

In a speech given by Carol Christison to the IDDBA convention Carol pointed out when looking at the next purchasing generation, "keep in mind that they share a different set of cohort memories than the rest of us. Their attitudes, expectations, and life styles are much different than ours."

Examples

1. Their lifetime has always included AIDS.
2. The original “Star Wars” movie looks fake to them.
3. They never heard “where’s the beef?” or “deplane, boss, de plane.”
4. Roller skating has always meant, “in-line” to them.
5. The expression, “You sound like a broken record” has no meaning to them.
6. Popcorn has always been cooked in the microwave.
7. There has always been MTV and, most importantly,
8. They’ve never had to walk to the TV to change the channel.

Their nostalgic memories will be much different than ours. Their idea of home-cooked will be “take-out” like mom used to buy. They won’t want what we had because they never had it.

Through all the ups and downs in our business, we have tried to keep a perspective which would keep our group focused on the big picture while not overlooking the obvious. I can best illustrate this with a story which will wrap up this presentation: