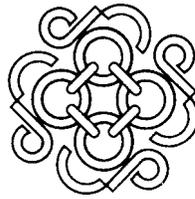


Livestock and Wool Cooperatives



FARMER COOPERATIVES IN THE UNITED STATES

COOPERATIVE INFORMATION REPORT 1

SECTION 14

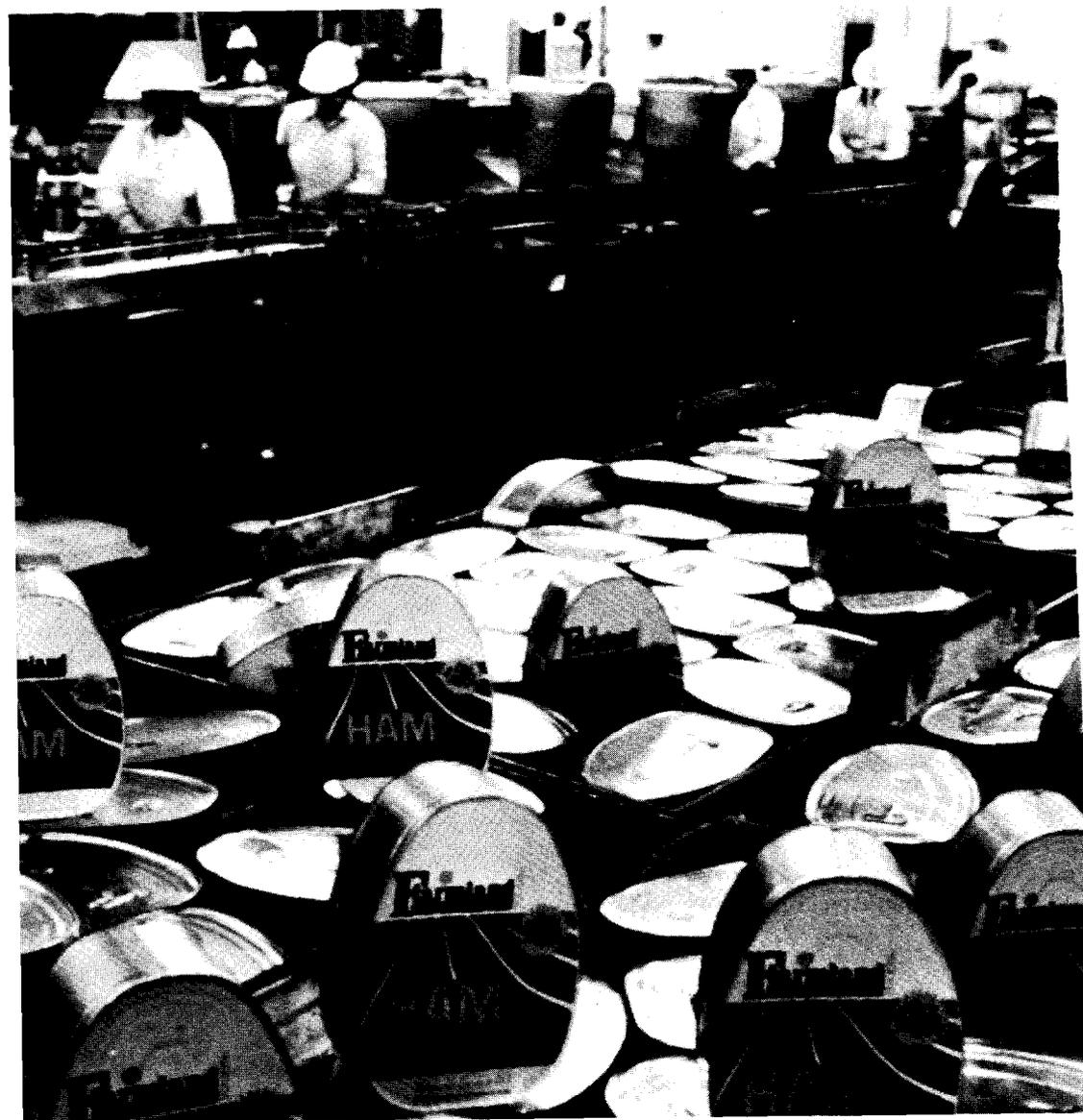
US DEPARTMENT OF AGRICULTURE
ECONOMICS, STATISTICS, AND COOPERATIVES SERVICE



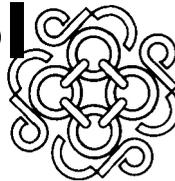
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Several cooperatives, such as Farmland Foods, Inc., slaughter, process, and package members' livestock as brand name consumer meat products.



Livestock and Wool Cooperatives¹



Livestock sales accounted for 28.8 percent of farmers' cash receipts in the United States in 1975, more than any other commodity or commodity group. In 1975-76, cooperatives marketed an estimated 11.6 percent of all livestock marketed, or \$3.0 billion worth (table 1). In 1973-74, cooperatives marketing livestock accounted for 7.1 percent of the dollar volume marketed by all marketing cooperatives. During the same period, 818 livestock cooperatives, including an estimated 374 that were temporarily inactive, had a combined membership of 697,600 livestock producers from 42 States.

Of the 572 cooperatives handling livestock in 1973-74, 539 or 94.2 percent were local associations. However, they accounted for only 10.8 percent of \$373.6 million of livestock sales by cooperatives. Therefore, 33 regional cooperatives or 5.8 percent of cooperatives handling livestock accounted for 89.2 percent or \$3.1 billion of cooperative livestock sales.

The four largest regional cooperatives in 1973-74 (in order of dollar sales): Central Livestock Association, St. Paul, Minn.; Interstate Producers Livestock Association, Peoria, Ill.; Producers Livestock Marketing Association, North Salt Lake, Utah; and Producers Livestock Association, Columbus, Ohio, handled \$1.3 billion worth of livestock or 38.9 percent of cooperative sales. The 12 largest cooperatives handled \$2.5 billion worth of livestock or 71.4 percent of cooperative sales.

Livestock cooperatives, their members, and sales volume are concentrated in 11 States, 10 of which are in the North Cen-

¹Livestock includes cattle and calves, hogs and pigs, sheep and lambs, and meat and byproducts derived from those livestock classes; wool includes wool and mohair.

Table I-Farmer cooperatives marketing livestock and livestock products: Number, memberships, and total sales of livestock and livestock products, 1930-31 to 1975-76¹

Period	Primarily livestock marketing cooperatives		All cooperatives marketing livestock during specified period ⁴	Value of live-stock and live-marketing stock products <i>1,000 dollars</i>
	Number ²	Membership ³		
		Number		1,000 dollars
1930-31	2,014	400,000	N.A.	300,000
1940-41	800	600,000	N.A.	292,000
1950-51	536	953,125	753	1,407,026
1960-61	456	784,760	532	1,567,434
1970-71	461	699,380	696	2,388,866
1971-72	450	684,585	613	2,414,992
1972-73	448	692,710	575	2,871,064
1973-74	444	697,635	572	3,446,706
1974-75				2,871,349
1975-76				3,006,568

¹Includes Alaska and Hawaii from 1950-51 on.

²Includes local, regional, and national cooperatives whose sales of livestock and livestock products exceeded 50 percent of total sales.

³Includes some duplication where 2 or more cooperatives are in same town or in nearby town.

⁴Includes primarily marketing cooperatives and supply cooperatives with livestock marketing operations.

⁵Includes intercooperative business, i.e., sales of regional or terminal sales cooperatives for local cooperatives.

⁶Estimated.

NA=Not Available.

tral United States (in order of cooperative sales: Minnesota, Iowa, Illinois, Wisconsin, Ohio, Missouri, California, Indiana, Nebraska, Michigan, and Kansas). In 1973-74, \$2.5 billion or 73.9 percent of cooperative livestock sales were in those States.

Cooperatives rapidly increased in number prior to and through the 1920's and 1930's. But due to consolidations, mergers, and acquisitions, and in response to changing conditions, the number of cooperatives handling livestock has since declined, as table 1 indicates. Membership in livestock cooperatives has declined also, as a result of declining numbers of farms and ranches. However, the dollar volume of business has increased. Part of the increase is due to a rising price level. The combined result of declining numbers and increasing volume has been fewer, larger, and more efficient cooperatives.

Farmers' cash receipts for wool in 1975 were less than 0.1 percent of farmers' total cash receipts for all commodities in the United States. In 1975-76, cooperatives marketed an estimated 30.1 percent of all wool marketed, or \$21.2 million worth (table 2). In 1973-74, cooperatives marketing wool accounted for less than 0.1 percent of the dollar volume marketed by all marketing cooperatives. During that period, 154 wool cooperatives had a total membership of 59,700 wool **producers** from 32 States.

In 1973-74, 150 or 92 percent of the 164 cooperatives handling wool were local associations. They marketed \$9.3 million or 23.1 percent of the volume of wool sales by cooperatives. Fourteen regional cooperatives, 8 percent of cooperatives handling wool, had sales of \$30.9 million or 76.9 percent of cooperative

Table 2—**Farmer** cooperatives marketing wool and mohair: Number, memberships, and total sales of wool and mohair, **1930-31** to **1975-76**¹

Period	Primarily wool and mohair marketing cooperatives		All co-ops marketing wool and mohair ⁴	Value of wool and mohair marketed ⁵
	Number ²	Membership ³		
		<i>Number</i>		<i>1,000 dollars</i>
1930-31	136	64,000	N.A.	26,000
1940-41	136	74,000	N.A.	17,000
1950-51	110	98,393	258	29,270
1960-61	182	102,020	284	22,463
1970-71	161	64,385	177	19,252
1971-72	158	62,830	194	15,521
1972-73	161	60,510	173	21,858
1973-74	154	59,700	164	40,184
1974-75				⁶ 23,546
1975-76				⁶ 21,157

¹Includes Alaska and Hawaii from 1950-51 on.

²**Includes** local, regional, and national cooperatives whose sales of wool and mohair exceeded 50 percent of total sales.

³**Includes** some duplication where 2 or more cooperatives are in same town or in nearby town.

⁴**Includes** primarily marketing cooperatives and supply cooperatives with wool marketing operations.

⁵**Includes** intercooperative business, i.e., sales of regional or terminal sales cooperatives for local cooperatives.

⁶**Estimated.**

NA=Not Available.

wool sales. Currently, all 14 regional wool cooperatives are members of two interregional wool marketing cooperatives, the North Central Wool Marketing Corporation in Minneapolis, Minn., and the National Wool Marketing Corporation in Boston, Mass.

Wool cooperatives' sales are concentrated in 11 States (in order of cooperative sales: South Dakota, Nebraska, Wyoming, Montana, Iowa, California, Utah, Minnesota, Ohio, Texas, and Idaho). In 1973-74, \$26.3 million or 85.1 percent of cooperative wool sales were in those States.

As synthetic fibers were introduced, the demand for wool declined, followed by a decline in the number of producers and wool cooperatives. As table 2 indicates, dollar volume of sales by wool handling cooperatives fluctuates but number of cooperatives and membership continue to decline. Pounds of wool marketed is declining also, though inflated and fluctuating prices may give the opposite impression.

These statistics indicate the relative importance of livestock and wool cooperatives nationally but fail to recognize their absolute and relative importance to producers in local and regional areas. For example, cooperatives in two major livestock-producing States, Minnesota and Ohio, handled about 45 percent of the livestock marketed in these States in 1975. Their presence affects the competitive environment in which producers operate and they perform valuable services for their members.

Cooperative Activities Prior to the 1970's

Livestock cooperatives were organized in response to changing needs of producers, and changes in economic conditions and technology.

Livestock

Societies for importing purebred cattle were organized in 1785 and were among the earliest cooperative activities recorded. In about 1794, community livestock drives began in Virginia and the Carolinas to move livestock from farm to slaughter centers. In 1836, cooperatives were organized to conduct public auction sales of purebred cattle in Ohio.

Most livestock was 'sold at terminal markets in the late 1800's and through the first three decades of the 1900's. Nebraska



and Kansas producers organized the first local livestock shipping association, Farmers Shipping Association of Superior, Nebr., in 1883. It assembled and shipped livestock by rail to central markets and operated continuously for more than 50 years.

In 1889, the first organized attempt to establish a cooperative sales agency at a terminal market resulted in the formation of the American Livestock Commission Company with sales offices in Chicago, Kansas City, St. Louis, and Omaha. It operated successfully for 1 year before its membership in the Chicago Livestock Exchange was denied. This eventually resulted in the cooperative's dissolution.

A second attempt was made in response to increased commission rates at terminal markets. The Cooperative Livestock Commission Company was organized in 1906 with sales offices in Chicago, Kansas City, and St. Joseph, but was forced to close its last office in 1909 because of buyers' resistance to the cooperative.

Despite disappointments, the first three decades of the 1900's were an important period for successful development and growth of livestock marketing cooperatives. Local shipping associations developed rapidly and by 1916, more than 600 were operating. By 1924, about 5,000 associations were assembling and shipping livestock by rail from country points to terminal markets, with most associations located in the upper Midwestern States. Early shipping associations provided shipping services for producers in a limited area around a rail loading point at a time when transportation to market was a problem, especially for smaller producers. Associations consigned most livestock shipped to commission sales agencies for sale on terminal markets. Proceeds from the sale of livestock were distributed to producers by the association. Shipping associations were a major factor in reducing margins between local and terminal market prices and provided a sound foundation for establishing cooperative sales agencies on terminal markets.

Many local shipping associations later joined to form countywide federated or centralized cooperatives. With the federated type, local associations assembled and shipped livestock from local assembly points, and the federation's central office received and forwarded all returns to the local association. The centralized type, found primarily in Ohio, was the forerunner of concentration yards. Livestock was assembled from a relatively wide



*Early livestock cooperatives operated primarily on terminal markets (above). Later, auction markets were built to bring marketing services closer to members' **farms**.*



area, making more frequent shipments and carload shipments Possible.

In 1917, a successful cooperative sales agency was organized by the Farmers Union of Nebraska. It began operating in Omaha and by 1920 had established agencies in St. Joseph, Sioux City, Kansas City, and Denver. Cooperative commission firms at terminal markets received livestock consigned by local shipping associations as well as individual producers. These cooperatives fed, watered, sorted, and sold livestock; prepared account sales; and forwarded net proceeds to local associations or producers.

The California Farm Bureau Marketing Association was established at Hanford, Calif., in 1918 and operated auctions at Hanford and several branch locations in the San Joaquin Valley. The American Farm Bureau Federation began sponsoring the organization of livestock marketing cooperatives around 1920 and by 1927, 13 cooperative sales agencies were formed. These associations organized the National Livestock Producers Association, a federation headquartered in Chicago, in 1930.

As the use of truck transportation increased and the meat-packing industry decentralized, cooperatives adjusted their operations to meet producers' changing marketing needs. They continued to serve their members on major terminal markets and established branch sales agencies at smaller terminal markets. They also organized to better serve members at country points by establishing local concentration yards, country buying stations, and local auction markets. To coordinate sales, several selling agencies exchanged market information daily.

During the 1950's and 1960's, producers marketed a larger proportion of their livestock directly to packers and through country agents, rather than through public auctions and terminal markets. Cooperatives responded to producers' needs by increasing their order-buying and order-selling programs for members. They filled purchase orders for feeder cattle from terminal markets or directly from feeder cattle producers. They carried out orders to sell members' feeder cattle and slaughter livestock by contacting buyers via telephone. Slaughter hogs were sold largely on a commission basis but cooperatives gradually moved to purchasing and reselling hogs rather than acting in an agency role.

Between 1923 and 1933, producers capitalized several livestock credit corporations as subsidiaries of their marketing coop-

eratives. They were organized to provide loans to producers with funds obtained by discounting borrowers' notes with the federal intermediate credit banks.

The Wisconsin Feeder Pig Marketing Cooperative marketed slaughter hogs by a relatively new marketing method in early 1965. They auctioned slaughter hogs by conference telephone, recognizing the need to attract buyers from a wider area to bid on their livestock. MFA Livestock Association began marketing feeder pigs by teleauction in late 1965 and since then, cooperatives in 10 States have sold nearly all species and classes of livestock via teleauction.

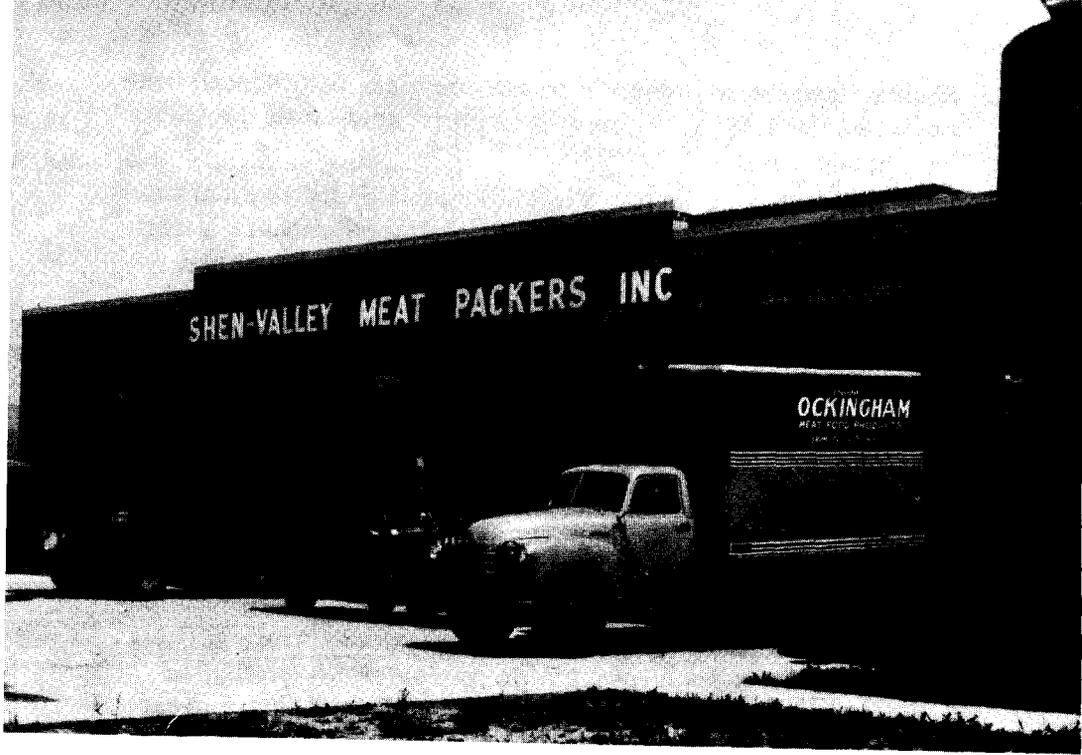
Cooperatives first entered livestock slaughtering and processing in 1914 at La Crosse, Wis. Between 1914 and 1919, 13 cooperative slaughtering and processing plants were organized, mostly in Wisconsin, Minnesota, and the Dakotas. Early cooperative meatpacking efforts were unsuccessful and all organizations failed, most of them shortly after being started. Principal causes of failure were: unsound promotion by **nonfarm** interests, lack of producer support, insufficient capital, inability to obtain capable management, and unsatisfactory sales outlets.

Other cooperatives attempted to enter slaughtering and processing, and though these efforts had a sounder economic basis and plants were smaller, most were unsuccessful. The first successful operation was the Detroit Packing Company, which operated a medium-sized plant as a cooperative from 1933 to 1954, when it was sold to private interests. Though no longer operating, the Detroit Packing Company provided some of the early commercial operating results that encouraged producers to raise meat-type hogs. Also, while it operated, producers received higher prices and no producer-investors lost any of their capital investment when it ceased operations.

Missouri Farmers Association purchased a plant at Springfield in 1946, marking its entrance into meatpacking. Other successful cooperative meatpacking ventures have begun since that time, such as Shen-Valley Meat Packers, Inc., in 1949 and Farmland Industries, Inc., in 1959.

In 1924, producers formed the first cooperative to manufacture livestock byproducts, the Farmers Union Processing Association of Redwood Falls, Minn.

In 1941, the National Livestock Commission Association of Oklahoma City began custom feeding cattle in its National Feedlot. By the mid-1960's, cooperatives were operating six **commer-**



Shen- Valley Meat Packers, Inc., is the oldest meatpacking cooperative still operating. The MFA Meatpacking Division began a few years earlier but after operating for more than 30 years ceased operations in 1977.



cial feedlots in seven States, and two cooperatives were feeding hogs.

By the mid-1960's, farmers and ranchers had organized cooperative grazing associations in about 10 States. Grazing associations enabled livestock producers to improve the quality and yield of their pastures and facilitate grazing on the public domain. They entered into grazing agreements with Government land-management agencies and private landowners and, in turn, issued grazing permits to users of that land. In addition, many constructed fences and water reservoirs, provided range riders, and promoted use of purebred bulls, among other activities.

Over time, producers have benefited from their livestock cooperatives in many ways. Cooperatives have saved patrons thousands of dollars through lower commission charges, recovery of overcharges in freight, and claims for livestock losses during shipment. They have helped obtain better market procedures, improved facilities, and more efficient services from stockyards and transportation agencies, besides developing additional buyer competition at several markets. Some cooperatives have provided credit, research, market information, and legal assistance; performed educational activities; and represented members in legislative matters.

Wool

As early as the 1840's, New York State producers cooperated in selling wool through "depots." In 1873, patrons of the Grange organized wool pools in Ohio. In 1877, Tennessee producers organized the Goodlettsville Lamb and Wool Club of Goodlettsville to sell lambs and wool and it continued to operate for 90 years.

Most early cooperative activity was carried on through local wool pools. Many pools were informal cooperatives, though some were incorporated. An elected committee or board of directors, which often included county extension personnel and local bank employees, employed or appointed a part-time manager. Annually, directors decided whether to sell pooled wool before or after shearing; to consign it to a merchant, warehouseman, or regional cooperative; sell members' wool individually or in a single lot; and to price on the basis of private negotiation or sealed bids. Wool was usually brought to a local point for weighing, sometimes repacking, and shipping. If producers consigned wool, rather than selling it for cash at the time it was shipped, they

received an advance payment on the shipping date and a final payment after wool was sold. These wool pools enabled producers to sell wool in sufficient volume to attract buyers, enhance their bargaining power, save transportation and other costs, and market wool on a merit basis.

County or local wool pools were the foundation for organizing early State or regional wool marketing cooperatives in the Dakotas, Iowa, the Virginias, and other States. These associations were organized to serve a larger area and provide more complete marketing services to both individual producers and local wool pools. Most regionals grew and became important wool handlers in their given trade- areas, but some lacked competent management and failed.

State and regional cooperatives usually served one or more States. They stressed orderly marketing, marketing wool on a merit basis, encouraged members to improve wool quality, often operated their own warehouses, and shipped wool to larger market centers for storage and sale. They provided field services, such as purchasing wool for forward sales to manufacturers, and offered educational and promotional services. Though most wool was handled on consignment, some wool was purchased from growers to fill forward sales. Most wool was sold to buyers after they physically inspected it, but some sales were made based on description without buyers present.

In 1909, the National Wool Warehouse and Storage Co. was organized in Chicago by western wool growers dissatisfied with selling wool to dealers for cash. The company sold stock to build a 25-million-pound warehouse in Chicago, and handled wool on consignment for local pools and producers. It worked with leaders among wool growers in organizing several State wool cooperatives. During the spring of 1920, wool prices dropped drastically after advance payments had been made to producers. Advances proved to be more than sales value of the wool, which caused the firm to go into debt and ultimately resulted in its liquidation in 1924.

A successor to the defunct organization, the National Wool Exchange, began operating in 1925 in Boston. It handled and sold wool on consignment from local and State cooperatives and large producers, but made no advances. Financing services were handled by producers and State cooperatives. The Exchange fostered organization of several State wool cooperatives and handled wool

for cooperatives in the Mountain and Upper Plains States plus Illinois and New York.

Organization and operation of the National Wool Exchange was an important chapter in the history of cooperative wool marketing. It was strictly a sales organization that operated during a period of declining prices when consignment selling was unattractive. However, it demonstrated that producers could improve their bargaining position by selling cooperatively.

With financial and organizational support from the Federal Farm Board, the National Wool Marketing Corporation in Boston, Mass., was organized by producers in 1929-30. In 1930, it sold nearly one-third of the Nation's shorn wool crop and during World War II handled more than 40 percent of all shorn wool. By 1963, it was handling only about 14 percent of the Nation's wool.

Cooperative Activities in the 1970's

Livestock

Livestock cooperative activities in the 1970's are categorized into three groups; marketing, integrated operations, and other services. Marketing activities include selling on commission (terminal marketing, country selling, private treaty direct selling, auction marketing, and teleauction marketing); buying on commission (order buying feeder livestock for producers and slaughter livestock for packers); and dealer operations (country buying stations with central sales desk, feeder livestock for members, and slaughter and feeder livestock from members and others). Integrated operations include production of feeder animals; livestock feeding; and slaughtering, processing, and meat distribution. Other activities of cooperatives include a wide variety of services. Many cooperatives engage in activities under all three categories.

Marketing

Operations of livestock marketing cooperatives range from marketing a single species and class of livestock by a single method in a local area, to marketing all species and classes of livestock by several methods in a multi-State area. An example of the former is a local feeder pig marketing cooperative that markets only feeder pigs by auction. At the other extreme is the cooperative that markets and purchases all classes of cattle, hogs, and

sheep by selling on commission, buying on commission, and conducting dealer operations for producers in several States.

Most regional cooperatives sell livestock on commission. The cooperative acts as an agent of the producer and arranges a sales transaction with a buyer. Title to livestock passes directly from seller to buyer.

Regional cooperatives operated one or more commission sales offices at 19 of the 32 terminal markets in 1975, including all of the largest-volume markets. In several instances, the cooperative commission firm was the largest of all commission firms at the market. In 1975, cooperatives comprised 10 percent of all commission sales agencies at terminal markets but handled 20 percent of the livestock at these markets.

Producers ship livestock to terminal markets, where they consign them to their cooperative commission agency for sale. The cooperative sorts, pens, feeds, and waters the livestock. Cooperative salesmen contact prospective buyers, show them the livestock, solicit bids, and negotiate privately with buyers to determine selling price. After sales are consummated, the livestock is weighed and transferred to the buyer. The cooperative calculates the gross sales proceeds, deducts commission fees and other marketing charges, and forwards net proceeds to consignors (producers). It later collects gross sales proceeds from buyers.

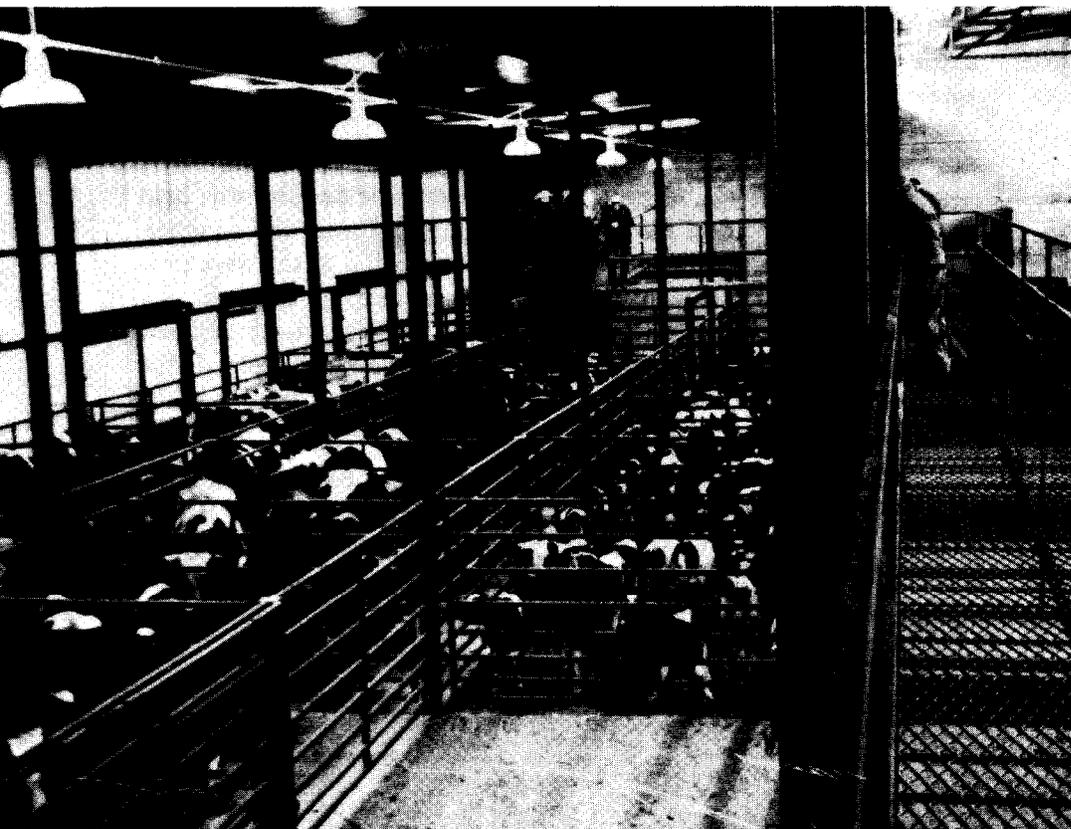
Several regional and many local cooperatives operate or sponsor livestock auctions. Many regional cooperatives own and operate regularly scheduled auctions as their primary marketing method, especially for cattle. Producers deliver livestock to the auction where they are weighed and sorted. Price is determined by the auction method and sales proceeds are forwarded to producers less marketing charges.

Many local associations' primary activity is sponsoring special or graded feeder pig and feeder cattle auctions. Some feeder pig associations sponsor auctions throughout the year while most feeder cattle associations sponsor auctions only during the spring and fall. Members of most feeder animal associations agree to abide by rules and regulations for producing livestock. They benefit from marketing quality feeder animals in large, uniform lots that attract many buyers.

Many local associations rent county fairgrounds or local auction facilities rather than investing in relatively expensive and little used facilities. Producers deliver livestock to the auction site where it is identified, graded, sorted, weighed, and commingled.



Cooperatives provide modern auction facilities where members' livestock is handled efficiently and with a minimum of bruising.



Price is determined by the auction method and proceeds less marketing charges are forwarded to sellers. In some States, local associations have organized a federated cooperative to handle publicity, coordinate sales, and standardize trading procedures and production standards for all special sales held within that State.

Since cooperatives began using teleauction marketing in 1965, its use has increased considerably. In 1975, five regional livestock marketing cooperatives (Interstate Producers Livestock Association, Peoria, Ill.; MFA Livestock Association, Marshall, Mo.; Producers Livestock Association, Columbus, Ohio; Wisconsin Feeder Pig Marketing Cooperative, Francis Creek, Wis.; and Equity Cooperative Livestock Sales Association, Baraboo, Wis.) marketed more than 1 million feeder pigs by teleauction. In the same year, an estimated 65,000 feeder and slaughter lambs were marketed by teleauction in Idaho, Oregon, Virginia, and West Virginia.

Though teleauctions have proved most successful thus far for feeder pigs and sheep and lambs, cooperatives also have tried teleauctions for slaughter hogs. Teleauction marketing enables producers to price livestock by auction and attract buyers from a wider area. In some sales, livestock remains on the farm or ranch until after the sale.

Another innovative auction method, the photorama auction, was used in 1976 by the California Livestock Marketing Association. The cooperative took color slides of 11,000 feeder cattle on farms and ranches. Prior to the sale, buyers were given a sale catalog with detailed information about each lot of cattle (seller's name, point of delivery, number of head, quality, age, sex, approximate weight, feeding conditions, etc.). A total of 6,000 head of cattle was sold during this first sale. The auction was held in an auction pavillion but cattle remained on farms and ranches. Cattle were auctioned while three slides of each sale lot were projected on a 10-foot screen. Slides of the owner, his cattle brand, and the cooperative salesman responsible for supervising delivery were projected on a second screen. Though the slides helped, the real benefit to buyers is the cooperative's reputation, and its guarantee that cattle delivered will be as described.

In the 1960's, several cooperatives began country commission selling programs. Though country commission operations are referred to by a number of terms (order selling, **feedlot** sales, **feedlot** contracting, and telephone direct, among others), the basic operations are similar. Producers agree to allow their cooperative

to act as their exclusive sales agent for a specified group of animals, or for all animals they market during a specified time period. The cooperative contacts prospective buyers and often brings them to the producer's farm or ranch so that livestock, particularly cattle, can be visually inspected. Price is determined by private negotiation between cooperative salesmen and buyer; however, sellers approve each sale before a transaction is consummated. The cooperative arranges transportation and delivery, returns sales proceeds to seller less sales commission fees, and collects from buyers.

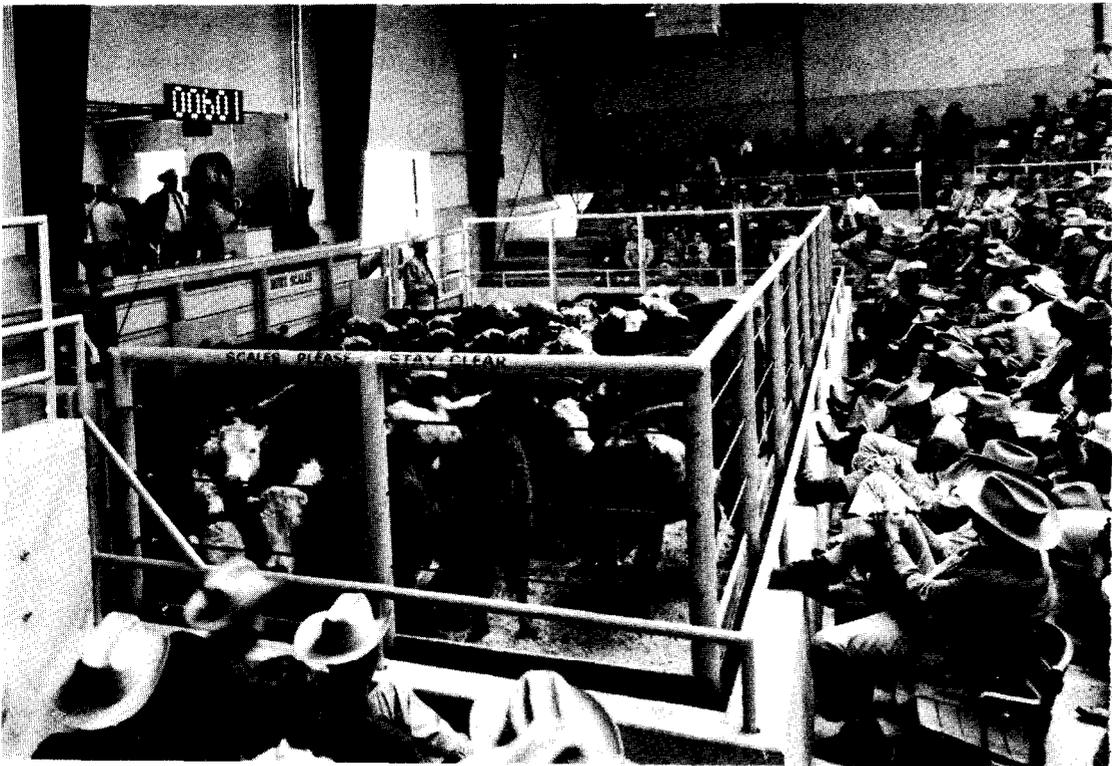
Country commission sales are increasing rapidly in importance as producers sell more slaughter livestock direct to buyers. For example, Iowa Farm Bureau Federation, Producers Commission Association in Sioux City, Iowa, and Interstate Producers Livestock Association in Peoria, Ill., developed a country feedlot sales program. Cattle are sold from farmers' feedlots to meatpackers by commission salesmen from the two regional livestock marketing associations. Each regional cooperative works with a local, multicounty marketing association. The marketing program began in April 1975 with 1 local marketing association serving 70 members in 5 Iowa counties. Two years later this program had grown to include 12 local marketing associations serving about 1,500 farmer members in 62 Iowa counties. Producers believe their market power is enhanced because better informed commission agents, who deal daily with buyers, can better represent their interests. In addition, livestock is sold before it leaves the farm or ranch, providing producers a better negotiating position.

Cooperatives buy on commission in two ways. Producers use order buying services provided by their cooperatives to purchase feeder livestock and breeding stock. Order buyers are agents of buyers, just like commission men are agents of sellers, and title to livestock transfers from seller or buyer, rather than seller to order buyer to buyer. Some cooperatives also have order buying services to purchase livestock from producers for meatpackers or other buyers.

A few regional cooperatives operate as livestock dealers, particularly for slaughter hogs. They operate a number of country markets where they buy hogs daily from producers. The cooperative's central sales office then resells hogs by telephone to meatpackers, and usually arranges transportation. Producers pay no sales commission. The cooperative's revenue is the difference between the purchase and resale price, plus a small service charge



Several cooperatives have integrated into feedlot operations to provide members with custom cattle feeding services or to provide a market for members' grain. Cooperatives have been innovative in auction facility design. One of the earlier auction ring scales installed was at this cooperative auction in Greeley, Colo., to permit weighing cattle as they are sold.



to packers. Some cooperatives also buy feeder livestock for resale to members on a limited scale. Unlike producers of some other commodities, livestock producers have little commitment to market livestock through their cooperatives or provide financing for them by making out-of-pocket investments. Most membership requirements of livestock marketing cooperatives are minimal. Producers automatically become members of most regional cooperatives when they first market any livestock through the cooperative. Other cooperatives require that producers make formal application for membership and pay a small membership fee, sometimes as little as \$1.00.

Usually, cooperative bylaws do not specify that members must market all their livestock through the cooperative. However, for a member to participate in a specific marketing program, some cooperatives require all livestock of a specific class produced by the member to be marketed through the cooperative. Marketing agreements of this type are common for feeder pig teleauction marketing and some special marketing programs for feeder pigs, feeder calves, and slaughter cattle.

Several regional cooperatives provide programs allowing producers to contract for future delivery of livestock at a guaranteed market price. These programs enable producers to lock in a sales price and transfer price risk to the cooperative, which then hedges contract purchases on the futures markets.

Integrated Operations

Several cooperatives are engaged in producing feeder pigs, custom feeding cattle, slaughtering livestock, and meat processing and marketing. Integrated activities of cooperatives enable producers to maintain ownership of livestock further in the production-marketing system, share in the ownership of expensive facilities and equipment, and overcome constraints on individual farming or ranching operations.

In 1976, 16 cooperative **feedlots** in 7 States (Arizona, Colorado, Iowa, Kansas, Montana, Oklahoma, and Texas) had a total one-time capacity of about 260,000 head. Some cooperatives feed cattle for members and nonmembers, while others feed cattle for members only. Of the 16 feedlots, 4 are operated by regional livestock marketing cooperatives that are members of the National Live Stock Producers Association. Others are operated by grain, farm supply, and cotton cooperatives.

Iowa cattle producers have developed an innovative cattle feeding cooperative. The Farmers Cooperative Society of Sioux Center organized a condominium cattle **feedlot**. Four 32-pen, **2,500-head-capacity** buildings were constructed, beginning in 1973. Cattle feeders individually own the pens and invest in the cooperative in proportion to the number of pens purchased. The cooperative owns the remaining facilities and manages the feeding operation. A condominium **feedlot** enables producers to integrate forward, take advantage of investment tax credit and depreciation, and own cattle feeding pens that later can be sold to another feeder. Such a **feedlot** innovation is serving as a prototype for another Iowa cooperative, and may be a prototype for others.

Hog producers also have integrated by an innovative approach. One example is the Wisner Farmers Farrowing Cooperative of Wisner, Nebr. Other examples could be found elsewhere in Nebraska and in Iowa, Colorado, Kansas, Minnesota, Ohio, South Dakota, and other States.

Producers form a cooperative to provide hog breeding and farrowing facilities, purchase breeding stock, and produce feeder pigs. Management is hired to farrow sows year-round, producing feeder pigs that are sold to members on a prearranged rotation basis. Most farrowing cooperatives produce 8,000 to 12,000 pigs per year with a **500-** to **700-sow** operation. Each member buys shares of stock in the cooperative in proportion to the share of the annual production of pigs he expects to purchase. Shares may be sold or traded if a producer decides to leave hog production. The principal advantages of feeder pig farrowing cooperatives are: Producers are assured of high-quality, healthy feeder pigs from a known source; producers know when and how many pigs will be delivered; they may concentrate on hog finishing, which is less labor-intensive than farrowing; and several producers can expand their operations via integration for less cost than each could do individually.

Gold Kist Inc., Atlanta, **Ga.**, has initiated a contract hog production program patterned after its integrated broiler operations. Contract producers provide labor and facilities and Gold Kist provides breeding stock, feed, and managerial assistance. Producers are paid on the basis of number of pigs weaned per litter, an incentive for producing more pigs per litter. After pigs reach a given weight, they are moved to another contract producer for finishing. Producers finishing hogs are paid on the basis of pounds of pork produced, and an incentive for feed efficiency.

Gold Kist controls the quantity and quality of hogs and pigs produced, scheduling production to provide a flow of hogs to its slaughter plant. Gold Kist also assumes most of the production risks. Another regional cooperative, Indiana Farm Bureau Cooperative Association, Inc., in Indianapolis, Ind., operates a similar contract production program, but sells finished hogs to independent packers.

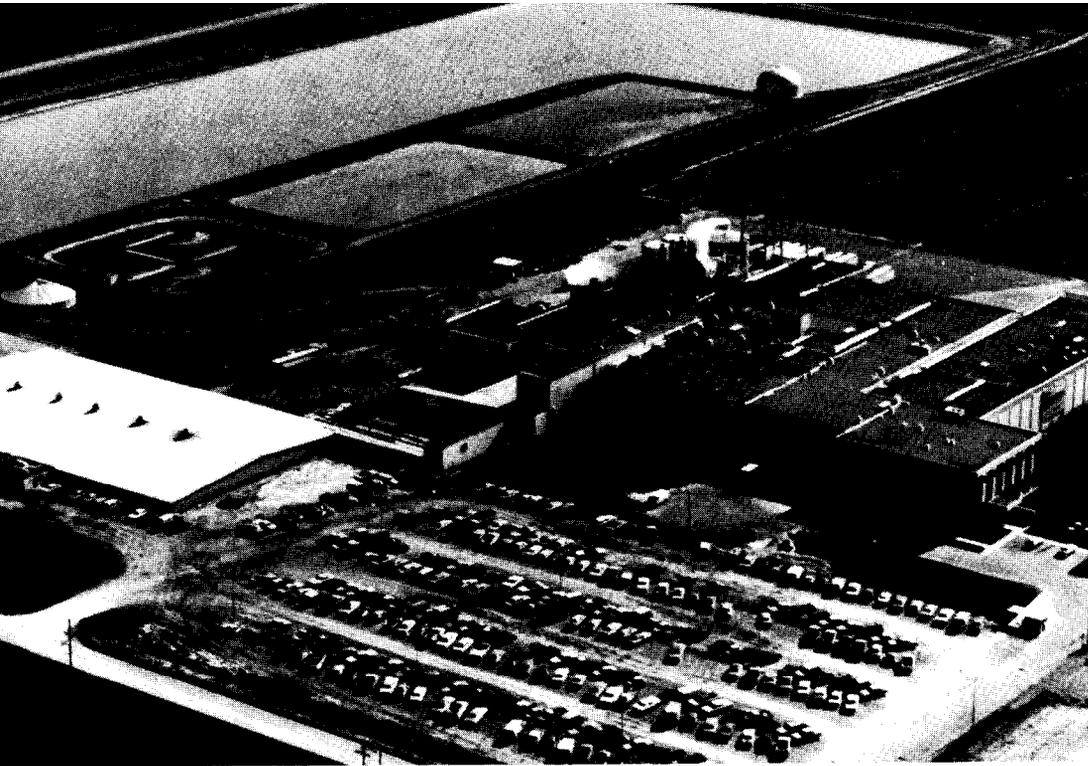
Producers have integrated into slaughtering on a limited scale. In 1977 5 cooperatives operated 9 slaughter-processing plants in 7 States. Of those plants, five slaughtered and processed hogs only; two, both hogs and cattle; and two, cattle only. All plants but two are owned and operated by regional farm supply-marketing cooperatives. Cooperative slaughtering and processing is more significant for hogs than for cattle. Cooperatives handled 2.9 million hogs, or 3.7 percent of U.S. hog slaughter in 1977. They handled 730,000 cattle or 1.7 percent of all cattle and calves slaughtered that year.

Shen-Valley Meat Packers, Inc., at Timberville, Va., is the oldest cooperative meatpacker still slaughtering, processing, and marketing meat for members. It operates one plant it built in 1949, which has been modernized to improve efficiency and increase capacity. Gold Kist Inc., Atlanta, Ga., operates a slaughter plant purchased in Georgia in 1971; and Landmark, Inc., in Columbus, Ohio, operates two Ohio slaughtering plants purchased in 1971-72.

Farmland Industries, Inc., in Kansas City, Mo., is the largest cooperative meat processor. It entered the meatpacking industry in 1959 when it purchased a hog slaughtering plant at Denison, Iowa. That plant has been remodeled and expanded to provide cutting and processing capabilities. A subsidiary, Farmland Foods, Inc., currently operates that plant, plus hog slaughtering and cutting plants in Iowa Falls, Iowa, and Crete, Nebr., a pork canning plant at Carroll, Iowa, and a beef slaughtering and fabricating plant at Garden City, Kans. The Crete, Nebr., plant was completed in late 1975.

In November 1978 Land O'Lakes, Inc., Minneapolis, Minn., purchased Spencer Foods with beef plants at Schuyler, Nebr., and Spencer, Ia.

Sterling Colorado Beef Co., started in 1966 as a producer-owned profit firm, changed its bylaws in 1977 to operate as a cooperative. Sterling slaughters members' cattle and sells carcass



F *a* *Foods, Inc., built this large l* *a* *n* *d*
at Crete, Nebr., opening it in late 1975.



beef. About half of its volume is fabricated by a partly owned subsidiary, Circle C Beef Co., Denver, Colo., and sold as boxed beef.

All six cooperative meatpackers market meat products under their own or acquired brands. Cooperatives now market fresh, frozen, canned, and processed meat products in nearly all States to retail grocers and the food service industry.

Most cooperative meatpackers do not require members to market slaughter livestock through the cooperative; rather, they purchase livestock from members in competition with other packers. One exception is Gold Kist Inc., which procures a small proportion of its slaughter livestock under contract with members. Therefore, marketing commitment to cooperative meatpackers is even less than to some livestock marketing cooperatives.

Some small, local cooperatives have also become more active recently in meat processing and marketing. Some cooperative locker plants have expanded and are processing more meat for retail sale than previously. One example is Producers Co-op. Association of Bryan, Tex., which custom slaughters about 80 percent of its volume for home use. It recently built a new facility, and now slaughters, processes, and retails meat. Other cooperative meat distribution efforts are springing up. In Pennsylvania and Georgia, producer groups are marketing frozen and fresh meat direct to consumers from roadside markets, refrigerated trucks, or through producer-owned retail stores.

Producers are becoming more interested in meat processing and distribution, in anticipation of higher returns from forward integration. Currently, a group of producers in Montana is in the process of forming a cooperative and building a slaughter plant. To enter meat processing and distribution on a large scale requires considerable investment in facilities and operating capital, and managerial expertise. It also involves a high degree of risk. Consequently, larger regional cooperatives have assumed the leadership role in cooperative meat processing and distribution.

Other Services

Activities of livestock marketing cooperatives encompass more than marketing and integrated operations. Cooperatives process and produce livestock and meat byproducts, help producers obtain high-quality breeding stock and feeder animals, provide financing, offer futures trading services, and disseminate market and other agricultural information.

Farmers Union Marketing and Processing Association at

Redwood Falls, Minn., manufactures livestock and poultry byproducts in addition to its livestock marketing activities. It operates five rendering plants in Minnesota and one in South Dakota, and two protein blending plants and a hide curing and warehouse facility in Minnesota.

It obtains raw rendering materials from meatpacking plants, poultry processors, locker plants, and farms and assembles these materials with a cooperative-owned truck fleet. The cooperative produces meat and bone meal, feather meal, animal fats, and cured hides. In a marketing agreement with members, the association agrees to process all dead animals delivered, thus providing a real service to its farmer-members who might otherwise have difficulty disposing of those animals.

At least one cooperative meatpacker also processes waste products from slaughtering and processing. Most processing involves converting waste products into livestock feed concentrates (meat scraps and bone meal).

Cooperatives provide additional services for livestock producers. Land O'Lakes, Inc., in Minneapolis, Minn., and Gold Kist Inc. maintain a high-quality swine breeding herd from which breeding animals are produced. Land O'Lakes, Inc., also contracts with producers to expand the production of high-quality breeding stock and feeder pigs. Farmland Industries also assists producers in upgrading hog and pork quality by maintaining four boar testing stations, offering an on-farm hog performance testing program, and breeding stock. These cooperatives and others also provide management advice and technical expertise to livestock producers.

Cattle and sheep producers now operate 375 grazing associations in 24 States to serve 2,982 families. Nearly two-thirds of the associations and families served are in six Mountain and Upper Plains States (Colorado, Idaho, Montana, Wyoming, and the Dakotas). Grazing associations buy or lease seasonal grazing land, oftentimes publicly owned land, for additional pasture.

Several regional livestock cooperatives finance livestock production for their members. Much of this financing is through six regional credit corporations that are affiliated with the National Feeder and Finance Corporation, a subsidiary of the National Live Stock Producers Association, Denver, Colo. The six credit corporations are located in San Francisco, Calif.; Ft. Worth, Tex.; Denver, Colo.; Oklahoma City, Okla.; Geneva, Ill.; and Salt Lake City, Utah; and serve producers in 24 States. In

1975, they loaned \$292.5 million to cattle, hog, sheep, and mink producers, in loans ranging from \$100 to slightly more than \$2.5 million dollars. Many other cooperatives provide limited financing themselves but assist producers in obtaining adequate operating capital.

Producers today are having to rely more on borrowed financing, which makes them less able to absorb widely fluctuating prices. Consequently, many are making greater use of futures markets and several cooperatives offer futures trading services for producers. Some cooperatives offer brokerage services, and provide hedging information and advice. A subsidiary of the National Live Stock Producers Association, the National Producers Service Company, offers futures trading services to member cooperatives as a marketing tool and is itself a member of the Chicago Mercantile Exchange.

Several regional livestock cooperatives keep their members informed through periodic publications. Most contain market price and outlook information, news about cooperatives in general, specific information about their cooperatives, farm and ranch management and technical information, and articles of general farming and ranching interest. Farm supply-marketing cooperatives devote space each month to advertising their products, have a consumer-oriented section, and include articles aimed toward young farmers.

Because some cooperatives handling livestock also handle other commodities and products and engage in a wide variety of activities, many livestock producers are able to belong to one full-service cooperative. Most cooperatives handling livestock, however, devote their resources to serving only their producer-members' livestock marketing needs, and continue to offer a broad array of valuable services.

Producer Investment in Livestock Marketing

Based on data for fiscal years ending in 1974-76, livestock cooperatives' had estimated total assets of \$162 million. Of this amount \$47 million, or 29 percent, was financed by net worth. This net worth represents \$68 per member for the estimated 698,000 cooperative members, including allocated and non-allocated reserves.

Pronounced differences exist in the capital invested in different segments of cooperative livestock marketing activity. Regional livestock marketing cooperatives (excluding meat-

packing) own \$67 million worth of total assets and have a net worth of about \$19 million. This \$67 million represents 41 percent of the total national investment in cooperative livestock marketing. These cooperatives serve an estimated 464,000 members, or 66 percent of the cooperative livestock marketing membership. The net worth of these regionals amounts to \$18.8 million, or \$41 per member.

Meatpacking cooperatives' total assets of about \$91 million represents 56 percent of the national cooperative livestock marketing investment. Their net worth amounted to \$24 million. Because of the geographically limited livestock marketing area served, cooperative meatpackers served around 17,000 members, or about 2.5 percent of the national cooperative livestock membership. This translates into a total investment equivalent of \$5,200 per member with a member net worth of about \$1,400.

Local livestock marketing cooperatives have the lowest total investment of \$4.8 million, or about 3 percent of the cooperative livestock marketing total. Local cooperatives have, relatively, the highest net worth, financing about 89 percent of their total assets. Their net worth is equivalent to about \$20 per member.

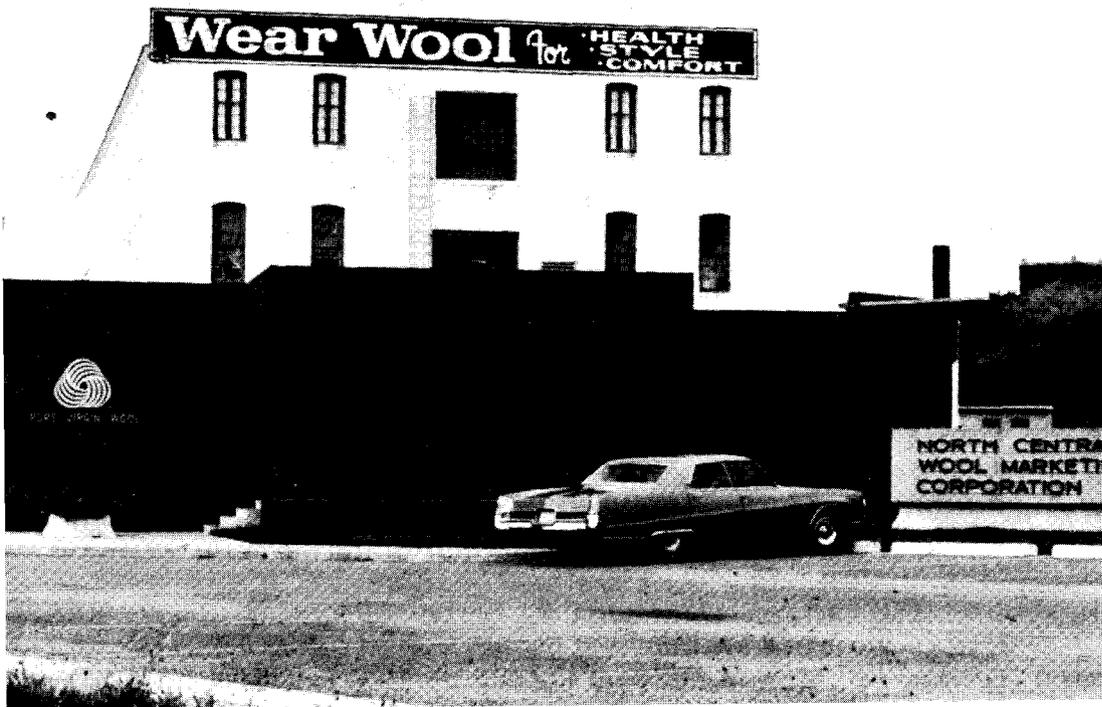
Wool

Wool cooperative activities in the 1970's are categorized into two groups: marketing and other related services. Marketing activities, both domestic and foreign, are either commission selling or wool dealer operations. One cooperative has a small amount of grease wool custom processed. Other activities include financing, management and marketing assistance, and related services.

Marketing

Local wool pools assemble wool from producers and visually grade and market it for them. After all wool has been sold, producers receive a payment for their proportion of the entire pool, less a small marketing fee. Local pools market much of their wool through regional wool marketing cooperatives.

Regional cooperatives procure wool either on consignment or direct purchase. An advance payment is made for wool consigned, with a final payment less selling commission being made after all wool has been sold. When producers or local pools sell wool to a regional cooperative, a cash payment is made, based on the current market price, and the regional cooperative markets



Cooperatives such as North Central Wool Marketing Corporation, Minneapolis, Minn., provide needed wool marketing services for sheep producers. North Central and Mid-States Wool Growers Cooperative Association, Columbus, Ohio, also operate retail stores where they sell woolen products to help increase the demand for members' wool.



wool on its own behalf. Some wool also may be procured under a cash forward contract, whereby producers agree to deliver a specified amount of wool on a future date for a predetermined price. '

Most regional cooperatives **assemble**, grade, pool and store wool at their nine warehouse locations in eight States. During the 1970's, handling became more automated due to pressures of rising labor and transportation costs, resulting in more economical handling. Also, sales of wool to manufacturers now are based on laboratory tests for determining wool grade and yield rather than being based on visual inspection and crude measuring devices formerly used. Fiber length and diameter are examined and a measurement made in microns. Buyers pay on the basis of microns, so wool is blended to upgrade lower quality fleeces. Cooperatives have devoted considerable effort to encourage members to market wool on a merit basis.

The interregional cooperatives market wool consigned to them or purchased by them from producers and local or regional cooperatives. Most of the wool handled by The National Wool Marketing Corporation is consigned to it by members for sale. Acting in an agency role, the cooperative makes sales on a commission basis and does not assume title to wool.

Most of the wool handled by the North Central Wool Marketing Corporation is purchased from producers by commission buyers on behalf of the cooperative. Title to wool is transferred from producers to North Central and the cooperative's revenue is generated from the difference between purchase and sales price for wool. North Central handles some wool on consignment and operates a grade and yield marketing program that enables larger producers to sell wool on grade and yield, rather than have wool blended or pooled with those of other producers. Price is determined by the current market price, with premiums or discounts for variations in grade and yield.

Most wool is sold to manufacturers by private negotiation, though some is sold on a sealed bid basis. Though most wool is marketed domestically, some wool is marketed internationally. Both interregional cooperatives believe international marketing strengthens their marketing position because domestic buyers know that if domestic prices are too low, wool will be sold abroad. When wool is exported, primary markets are in European countries. Also, in an effort to increase proceeds to producers, North Central in 1974 began having a small percent of its wool scoured and made into tops (combed wool) on a custom basis.

Other Services

Cooperatives provide operating capital for their members by financing inventories of member-cooperatives and making advance payments to member-producers. Some cooperatives publish a periodic newsletter that includes flock management and technical information, market and price information, as well as other agricultural information. Some local pools and State and regional cooperatives also provide shearing services, especially in farm flock areas.

Challenges and Opportunities In the Future

There will continue to be fewer, larger, and more specialized producers for cooperatives to serve. These producers will require more capital, especially borrowed capital, and greater managerial skills to efficiently operate their expanded livestock and wool enterprises. Simultaneously, they will become more vulnerable to widely fluctuating prices or extended periods of low prices. Producers will need methods of coping with these price changes to maintain profitable operations and protect their investments. Producers must be efficient to be part of today's food production and marketing system. The pressure to improve the efficiency of that system will continue to increase and producers must be able to adjust. It is also imperative that producers have access to viable markets and to accurate and timely price information to make intelligent production and marketing decisions.

What are some of the challenges and opportunities for livestock and wool cooperatives?

Livestock

Livestock marketing through terminal markets is expected to continue a downward trend except in a few unusual areas. Concurrently, more livestock is expected to move more directly from sellers to buyers, bypassing public auction and terminal markets. Thus, the base volume upon which publicly reported prices are established will continue to shrink. Already, the accuracy with which these prices reflect actual supply and demand conditions is questioned.

Cooperatives are challenged to adjust to that trend. They must develop innovative marketing programs to market producers' slaughter livestock to packers directly from farms, ranches, and feedlots. Cooperatives can represent individual producers in negotiating price and terms of trade, or can represent the combined volume of many producers in a single transaction. Cooperatives may negotiate spot or cash transactions or long-term supply contracts for their members. In either case, their objective is to maintain a sufficient level of market power so that producers' livestock is equitably priced. When cooperatives specialize in marketing livestock, producers are able to concentrate their skills in producing that livestock and other products.

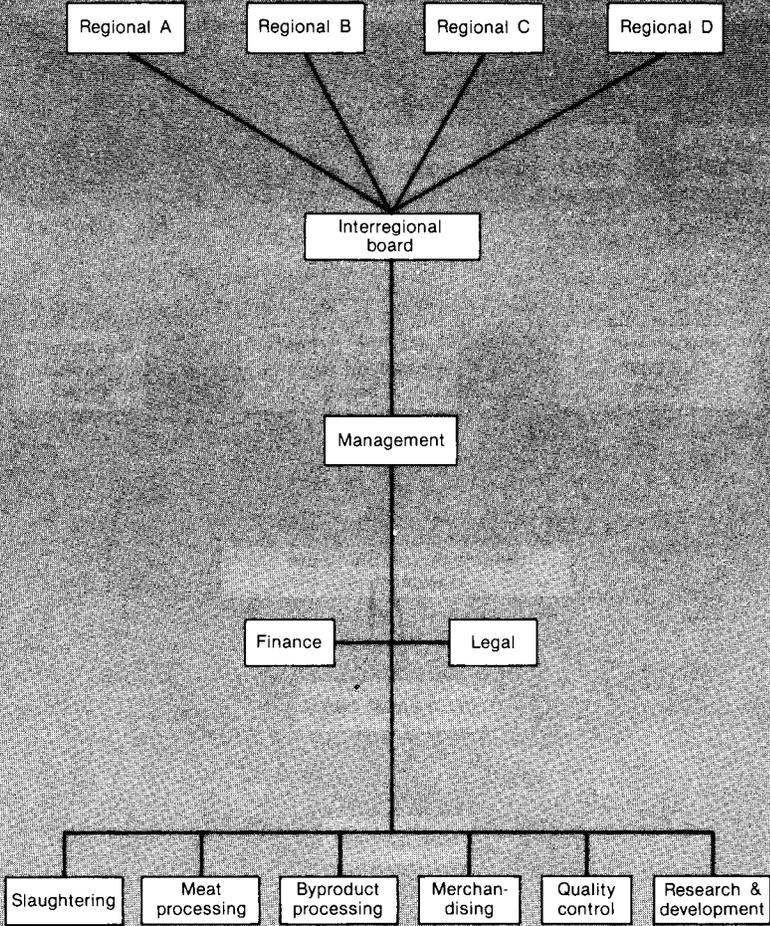
Cooperatives should continue to develop innovative marketing programs that increase buyer competition, such as teleauctions. Teleauction marketing could be used more extensively to help maintain open, competitive markets for producers in localized areas. Feeder pig marketing via teleauction is expected to expand and efforts are being made to market feeder cattle by teleauction in some areas. There is some interest in expanding existing cooperative teleauctions for sheep and lambs into four regional teleauction or teletype exchanges serving the entire United States.

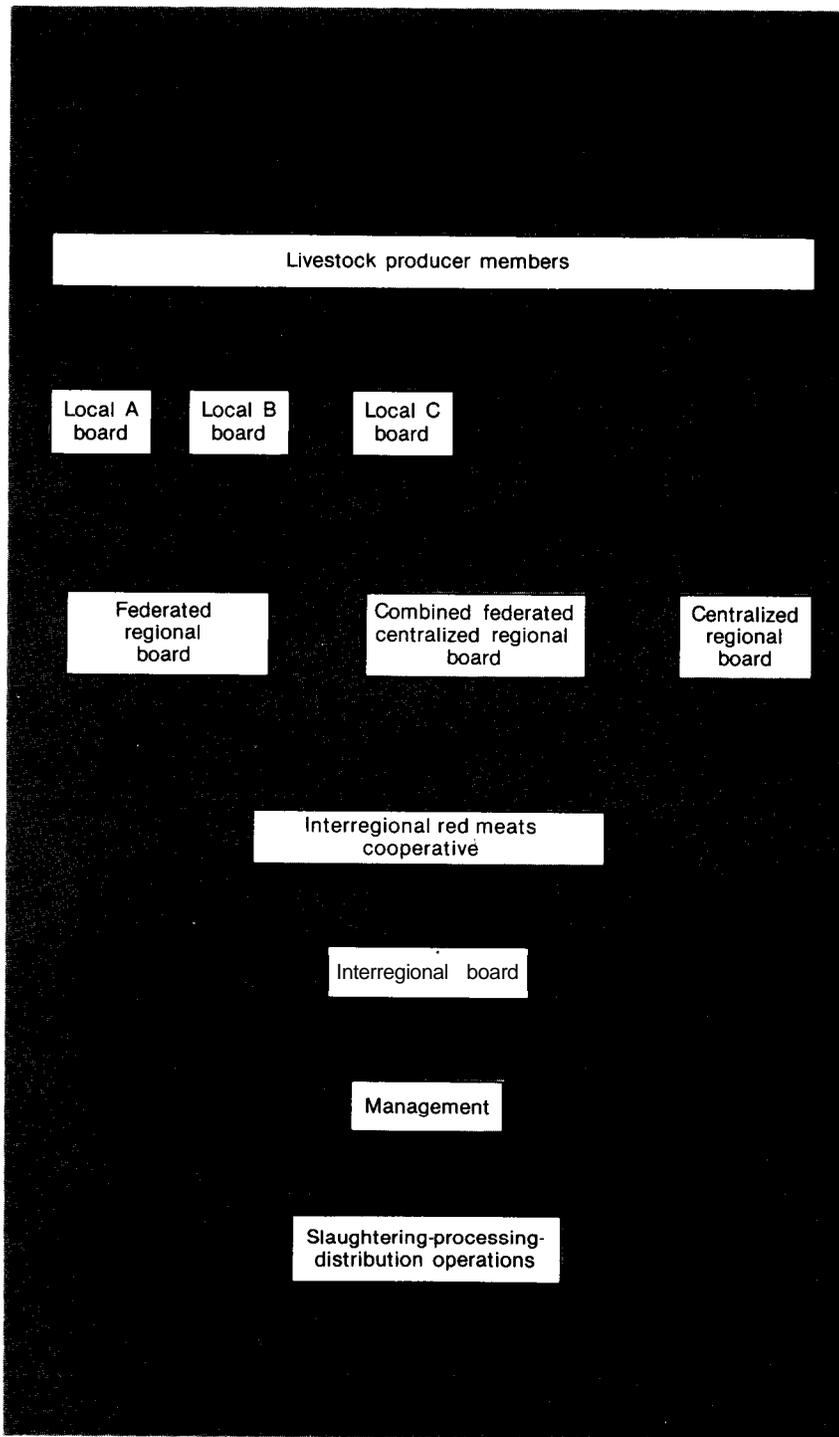
Nearly the only way for many producers to expand into commercial cattle and hog feeding, slaughtering, processing, and meat marketing is through cooperatives. Cooperatives can provide the stimulus and assistance to further integrate livestock operations. They could provide the expertise to organize and operate integrated feeding operations as well as hog farrowing operations. Cooperative meatpacking may provide the only market for producers' livestock in some areas. This is especially true of the sheep and lamb industry where meatpackers have been closing slaughtering plants. However, on the fringe of major hog and cattle production areas, a similar situation may be found.

Innovative arrangements to integrate into meatpacking are needed because of high costs and risks involved for producers. For example, producers, through their cooperative, might retain ownership of livestock and have their cooperative negotiate contracts with packers who have excess slaughtering capacity to perform meatpacking services on a custom or fee basis.

Several cooperatives currently engaged in meatpacking could explore the possibility of developing a common brand for their meat products. It would require considerable cooperation

Figure 1-Complete Interregional red meats cooperative





among participating cooperatives and a strict quality control program. However, the potential gains may be worth the effort, resulting in expanded markets, greater marketing flexibility, and reduced total marketing and distribution costs.

For their cooperatives to be effective, livestock producer-members must become more committed to market through them. Currently, livestock producers have little formal commitment to market through their cooperatives. Producers and their cooperatives both could benefit from greater use of marketing agreements, noting the higher level of marketing commitment to cooperatives in other commodity areas where cooperatives enjoy a higher market share.

Cooperatives also are challenged to provide the necessary leadership in implementing livestock marketing improvements. The 14 members of the National Live Stock Producers Association and as few as 3 other cooperatives are in a unique position, because of their potential combined strength, to move toward greater marketing commitment, develop innovative country marketing programs, electronic exchanges, and integrated production, processing, and marketing systems.

They could implement other useful services required by members such as common accounting systems, futures market brokerage services, and improved market information. Greater cooperation and joint efforts could lead to additional mergers, resulting in more effective cooperatives.

Wool

The number of wool producers has declined though the producing areas have remained relatively unchanged. Therefore, wool must be assembled over a wider area to accumulate the same quantity as formerly could have been assembled from a smaller area. Wool cooperatives are challenged to continue assembling a sufficient volume of wool that can be marketed effectively. The task could be made easier if the two interregional cooperatives merged into a single cooperative. It would increase wool producers' market power while increasing its marketing flexibility. The single cooperative would be in a better position to negotiate long-term supply contracts, expand its international marketing, and share mutually supporting facilities and marketing staff.

Cooperatives should further investigate the feasibility of integrating into wool processing and manufacturing as a means of increasing producers' returns from wool. Integration might be via

contract or by purchasing wool processing facilities. It might be most easily accomplished by a single national cooperative or through a joint venture between interregional cooperatives or between an interregional and one of the larger regional cooperatives.

Summary and Conclusions

In large measure, livestock and wool cooperatives have organized and changed in response to changing needs of producers. Prior to the 1970's, livestock and wool cooperatives engaged primarily in first-handler marketing activities and providing related services, with limited involvement in integrated operations. During the 1970's, livestock cooperatives became more heavily engaged in and committed to integrating production-marketing stages, especially at the processing and meat distribution stages; and a wool cooperative ventured into custom wool processing on a small scale.

Agriculture will continue to change. Cooperatives must provide the leadership to anticipate change and alter their operations accordingly. For resourceful, innovative livestock and wool producers and their cooperatives, opportunities abound.

Among their greatest contributions and challenges are: (1) maintain markets on which accurate market prices can be determined; (2) maintain sufficient market power for producers so that those producers receive an equitable price for their livestock and wool; (3) enable producers to maintain control over livestock and wool production, rather than allowing a shift in control toward noncooperative agribusiness firms; and (4) capitalize on the opportunity of cooperatives to cooperate among themselves for the benefit of their combined membership. All of these programs will require greater producer commitment to support and market through their cooperatives.

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COOPERATIVE PROGRAM
U.S. Department of Agriculture
Economics, Statistics, and Cooperatives Service

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

The Program publishes research and education 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.